UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2012

or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For transition period from to

Commission File Number 0-51367

OTTAWA SAVINGS BANCORP, INC.
(Exact Name of Registrant as Specified in Charter)

United States (State or other Jurisdiction of Incorporation)	20-3074627 (I.R.S. Employer Identification No.)
925 LaSalle Street, Ottawa, Illinois (Address of Principal Executive Offices)	61350 (Zip Code)

Registrant’s telephone number, including area code: (815) 433-2525

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, Par Value $0.01 per share
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.   Yes ¨   No x.

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.   Yes ¨   No x.

Indicate by check mark whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.   Yes x   No ¨.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

¨ Large Accelerated Filer
¨ Accelerated Filer
¨ Non-Accelerated filer (do not check if a smaller reporting company)
x Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x.

As of June 30, 2012, the aggregate market value of the voting common equity held by non-affiliates of the registrant was approximately $3,608,038 (based on the last sale price of the common stock on the OTC Bulletin Board of $4.75 per share).

The number of shares of Common Stock of the registrant issued and outstanding as of March 28, 2013 was 2,117,979.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for its 2013 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to SEC Regulation 14A are incorporated by reference into Part III.

OTTAWA SAVINGS BANCORP, INC.

Form 10-K for Fiscal Year Ended

December 31, 2012

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PART I

Forward-Looking Statements

This report includes forward-looking statements, including statements regarding our strategy, effectiveness of investment programs, evaluations of future interest rate trends and liquidity, expectations as to growth in assets, deposits and results of operations, future operations, market position, financial position, and prospects, plans and objectives of management. These forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations, can generally be identified by use of the words "believe," "expect," "intend," "anticipate," "estimate," "project," or similar expressions. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain and actual results may differ materially from those predicted in such forward-looking statements. A number of factors, some of which are beyond our ability to predict or control, could cause future results to differ materially from those contemplated. These factors include but are not limited to: recent and future bail out actions by the government; a further slowdown in the national and Illinois economies; a further deterioration in asset values locally and nationwide; volatility of rate sensitive deposits; changes in the regulatory environment; increasing competitive pressure in the banking industry; operational risks; asset/liability matching risks and liquidity risks; continued access to liquidity sources; changes in the securities markets; changes in our borrowers' performance on loans; changes in critical accounting policies and judgments; changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or other regulatory agencies; changes in the equity and debt securities markets; effect of additional provision for loan losses; fluctuations of our stock price; success and timing of our business strategies; impact of reputation risk created by these developments on such matters as business generation and retention, funding and liquidity; and political developments, wars or other hostilities that may disrupt or increase volatility in securities or otherwise affect economic conditions. The consequences of these factors, any of which could hurt our business, could include, among others: increased loan delinquencies; an escalation in problem assets and foreclosures; a decline in demand for our products and services; a reduction in the value of the collateral for loans made by us, especially real estate, which, in turn would likely reduce our customers' borrowing power and the value of assets and collateral associated with our existing loans; a reduction in the value of certain assets held by our company; an inability to meet our liquidity needs and an inability to engage in certain lines of business. These risks and uncertainties should be considered in evaluating forward-looking statements, and undue reliance should not be placed on such statements. Except to the extent required by applicable law or regulation the Company does not undertake any obligation to update any forward-looking statement to reflect circumstances or events that occur after the date the forward-looking statements are made. See also "Item 1A. Risk Factors" and other risk factors discussed elsewhere in this Annual Report.

ITEM 1. BUSINESS

General

Ottawa Savings Bancorp, Inc. (the "Company") was incorporated under the laws of the United States on July 11, 2005, for the purpose of serving as the holding company of Ottawa Savings Bank (the "Bank"), as part of the Bank's conversion from a mutual to a stock form of organization. The Company is a publicly traded banking company with assets of $179.0 million at year-end 2012 and is headquartered in Ottawa, Illinois.

In 2005, the Board of Directors of the Bank unanimously adopted a plan of conversion providing for the conversion of the Bank from an Illinois chartered mutual savings bank to a federally chartered stock savings bank and the purchase of all of the common stock of the Bank by the Company. The depositors of the Bank approved the plan at a meeting held in 2005.

In adopting the plan, the Board of Directors of the Bank determined that the conversion was advisable and in the best interests of its depositors and the Bank. The conversion was completed in 2005 when the Company issued 1,223,701

shares of common stock to Ottawa Savings Bancorp MHC (a mutual holding company), and 1,001,210 shares of common stock to the public. As of December 31, 2012, Ottawa Savings Bancorp MHC holds 1,223,701 shares of common stock, representing 57.8% of the Company's common shares outstanding.

The Bank's business is to attract deposits from the general public and use those funds to originate and purchase one-to-four family, multi-family and non-residential real estate, construction, commercial and consumer loans, which the Bank primarily holds for investment. The Bank has continually diversified its products to meet the needs of the community.

Business Strategy

The Company's business strategy is to operate as a well-capitalized and profitable community savings bank dedicated to providing quality customer service and innovative new products. The Bank operates in a building with 21,000 square feet of office space, five drive-up lanes, and a separate ATM drive-up to provide quality customer service to customers in the community.

Highlights of our business strategy are as follows:

- Continue to emphasize the origination of one-to four-family mortgage loans;
- Aggressively market core deposits;
- Offer a broad range of financial products and services to both retail and commercial customers in the Bank's market area;
- Pursue opportunities to increase non-residential real estate and multi-family lending in the Bank's market area;
- Continue to utilize conservative underwriting guidelines to limit credit risk in the Bank's loan portfolio to achieve a high level of asset quality; and
- Consider expanding into new market areas to grow the Bank's business through the addition of new branch locations and/or through possible acquisitions.

Market Area and Competition

The Company is headquartered in Ottawa, Illinois, which is located in north-central Illinois approximately 80 miles southwest of Chicago. Its market area, which benefits from its proximity to Chicago, includes all of LaSalle County.

The Bank faces significant competition for the attraction of deposits and origination of loans. Our most direct competition for deposits and loans has historically come from the several financial institutions operating in our market area and, to a lesser extent, from other financial service companies, such as brokerage firms, credit unions, mortgage companies and mortgage brokers. Our main competitors include a number of significant independent banks. In addition, the Bank faces competition for investors' funds from money market funds and other corporate and government securities. Competition for loans also comes from the increasing number of non-depository financial service companies entering the mortgage and consumer credit market, such as securities companies and specialty finance companies. The Bank believes that its long-standing presence in Ottawa, Illinois and its personal service philosophy enhances its ability to compete favorably in attracting and retaining individual and business customers. The Company actively solicits deposit-related customers and competes for deposits by offering customers personal attention, professional service and competitive interest rates.

Lending Activities

General. Our loan portfolio consists primarily of one-to-four family residential mortgage loans. To a lesser extent, our loan portfolio includes multi-family and non-residential real estate, commercial, construction and consumer loans. Substantially all of our loans are made within LaSalle County.

Loan Portfolio Composition. The following table sets forth the composition of our loan portfolio by type of loan as of the dates indicated, including a reconciliation of gross loans receivable after consideration of the undisbursed portion of construction loan funds, the allowance for loan losses and net deferred costs (fees).

At December 31,				
2012	2011	2010	2009	2008
(Dollars in Thousands)				

	Amount	Percent Of Total	Amount	Percent Of Total	Amount	Percent Of Total	Amount	Percent Of Total	Amount	Percent Of Total
One-to-four family	$75,609	60.24 %	$80,334	60.41 %	$82,442	58.75 %	$89,595	58.76 %	$100,057	62.83
Multi-family	4,629	3.69 %	5,580	4.20 %	6,237	4.44 %	5,512	3.62 %	3,809	2.39
Lines of credit	13,209	10.52 %	14,219	10.69 %	15,325	10.92 %	14,540	9.54 %	13,300	8.35
Non-residential real estate	18,897	15.06 %	20,058	15.08 %	20,362	14.51 %	21,841	14.33 %	22,473	14.11
Commercial	4,717	3.76 %	5,965	4.49 %	9,795	6.98 %	10,528	6.90 %	4,367	2.75
Construction	105	0.08 %	982	0.74 %	531	0.38 %	3,858	2.53 %	5,158	3.24
Consumer	8,353	6.65 %	5,832	4.39 %	5,637	4.02 %	6,592	4.32 %	10,081	6.33
Total loans, gross	125,519	100.00%	132,970	100.00%	140,329	100.00%	152,466	100.00%	159,245	100.00
Undisbursed portion of loan funds	(56)		(171)		(178)		(152)		(1,114)	
Allowance for loan losses	(3,381)		(4,747)		(4,703)		(3,515)		(1,605)	
Deferred loan costs (fees), net	(87)		(80)		(97)		(99)		(82)	
Total loans, net	$121,995		$127,972		$135,351		$148,700		$156,444	

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Listed below are the outstanding balances of purchased loans, which have been included in the table above.

	At December 31,				
	2012	2011	2010	2009	2008
	(In Thousands)				
One-to-four family	$ 697	$ 754	$ 796	$ 668	$ 703
Multi-family	2,332	2,405	2,465	1,797	1,821
Non-residential real estate	2,020	3,353	5,399	6,717	7,661
Purchased auto loans (included in consumer loans above)	7,810	5,179	4,658	5,017	8,067
Total	$ 12,859	$ 11,691	$ 13,318	$ 14,199	$ 18,252

Maturity of Loan Portfolio. The following tables show the remaining contractual maturity of our loans at December 31, 2012. The tables do not include the effect of possible prepayments or due on sale clause payments.

	At December 31, 2012							
	One-to-four family	Multi-family	Lines of credit	Non-residential real estate	Commercial	Construction	Consumer	Total
	(In Thousands)							
Amounts due one year or less	$ 202	$ 2,332	$ 5,041	$ 2,020	$ 84	$ 105	$ 261	$ 10,045
After one year								
More than one year to three years	1,166	4	1,061	1,929	2,598	-	1,162	7,920
More than three years to five years	820	-	880	264	1,472	-	3,791	7,227
More than five years to ten years	6,184	571	3,903	2,383	136	-	3,052	16,229
More than ten years to twenty years	24,410	1,451	2,324	8,072	427	-	87	36,771
More than twenty years	42,827	271	-	4,229	-	-	-	47,327
Total due after December 31, 2013	75,407	2,297	8,168	16,877	4,633	-	8,092	115,474
Gross Loans Receivable	$ 75,609	$ 4,629	$ 13,209	$ 18,897	$ 4,717	$ 105	$ 8,353	$ 125,519
Less:								
Undisbursed portion of loan funds								(56)
								(3,381)

Allowance for loan losses	
Deferred loan costs (fees), net	(87)
Total loans, net	$ 121,995

	Due After December 31, 2013		
	Fixed	Adjustable	Total
	(In Thousands)		
One-to-four family	$ 41,066	$ 34,341	$ 75,407
Multi-family	848	1,449	2,297
Lines of credit	-	8,168	8,168
Non-residential real estate	4,837	12,040	16,877
Commercial	4,206	427	4,633
Consumer	8,092	-	8,092
Total	$ 59,049	$ 56,425	$ 115,474

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Asset Quality. Within our investment portfolio we have no subprime or Alt-A backed instruments among our securities. Historically, our lending activity has promoted home ownership in the communities we serve. Our consumer and residential mortgage loans are originated consistent with the underwriting approach described herein. This includes an assessment of each borrower's personal financial condition, including a review of credit reports and related FICO scores as well as verification of income and assets. The Company does not conduct lending programs that target the subprime market. During the ordinary course of business to achieve our goal of being a community bank, we originate and manage loans in our portfolio to some borrowers with a risk of default higher than customers considered prime. Thus, the extended economic downturn may affect us indirectly, albeit to a lesser extent than it will likely impact those banks and thrifts that produced and retained significant portfolios that targeted such loans and securities. While we believed that the nature of our one-to-four family lending niche and our underwriting standards would limit the impact of the downward turn in the credit cycle on the quality of our assets—particularly in comparison with those institutions that were directly targeting subprime and Alt-A lending—the downturn in the credit cycle resulted in our experiencing higher levels of charge-offs and/or provisions for loan losses, which impacted our results of operations.

One- to-Four Family Residential Loans. Our primary lending activity is the origination of mortgage loans to enable borrowers to purchase or refinance existing homes or to construct new residential dwellings in our market area. We offer fixed-rate and adjustable-rate mortgage loans with terms up to 30 years. Borrower demand for adjustable-rate loans versus fixed-rate loans is a function of the level of interest rates, the expectations of changes in the level of interest rates, the difference between the interest rates and loan fees offered for fixed-rate mortgage loans and the initial period interest rates and loan fees for adjustable-rate loans. The relative amount of fixed-rate mortgage loans and adjustable-rate mortgage loans that can be originated or purchased at any time is largely determined by the demand for each in a competitive environment and the effect each has on our interest rate risk. The loan fees charged, interest rates, and other provisions of mortgage loans are determined by us on the basis of our own pricing criteria and competitive market conditions.

We offer fixed rate loans with terms of either 15, 20 or up to 30 years. We traditionally sell 30-year fixed rate loans into the secondary market, resulting in a fixed rate loan portfolio primarily composed of loans with less than 15 to 20 year terms. Our adjustable-rate mortgage loans are based on either a 15, 20 or up to 30 year amortization schedule and interest rates and payments on our adjustable-rate mortgage loans adjust every one, three or five years. Interest rates and payments on our adjustable-rate loans generally are adjusted to a rate that is based on the Federal Cost of Funds Index (COFI). The maximum amount by which the interest rate may be increased or decreased is generally 1% to 2% per adjustment period, depending on the type of loan, and the lifetime interest rate ceiling is generally 5% over the initial interest rate of the loan. The initial and floor rates for owner occupied properties are 3.25%, 3.75% and 4.25% for the one, three and five year adjustable rate loans, respectively, and 4.25%, 4.75% and 5.25% for non-owner occupied one-to-four family properties, respectively, at this time. The initial and floor rates on multi-family and non-residential properties are generally based on the COFI plus a spread, with the initial rate and floor rates ranging from 4.25% to 5.25%, respectively.

Due to historically low interest rate levels, borrowers generally have preferred fixed-rate loans in recent years. While we anticipate that our adjustable-rate loans will better offset the adverse effects on our net interest income of an increase in interest rates as compared to fixed-rate mortgages, the increased mortgage payments required of adjustable-rate loans in a rising interest rate environment could cause an increase in delinquencies and defaults. The marketability of the underlying property also may be adversely affected in a high interest rate environment. In addition, although adjustable-rate mortgage loans help make our asset base more responsive to changes in interest rates, the extent of this interest rate sensitivity is limited by the annual and lifetime interest rate adjustment limits.

While one-to-four family residential real estate loans are normally originated with up to 30-year terms, such loans typically remain outstanding for substantially shorter periods because borrowers often prepay their loans in full upon

sale of the property pledged as security or upon refinancing the original loan. Therefore, average loan maturity is a function of, among other factors, the level of purchase and sale activity in the real estate market, prevailing interest rates and the interest rates payable on outstanding loans.

We originate loans to individuals and purchase loans that finance the construction of residential dwellings for personal use. Our construction loans generally provide for the payment of interest only during the construction phase, which is usually ten months. At the end of the construction phase, most of our loans automatically convert to permanent mortgage loans. Construction loans generally can be made with a maximum loan to value ratio of 80% of the appraised value with maximum terms of 30 years. The largest outstanding residential construction loan at December 31, 2012 was $105,000, of which $49,000 was disbursed. We also require periodic inspections of the property during the term of the construction.

We generally do not make conventional loans with loan-to-value ratios exceeding 80%. Loans with loan-to-value ratios in excess of 80% generally require private mortgage insurance, government guarantee or additional collateral. We require all properties securing mortgage loans to be appraised by an independent appraiser approved by our Board of Directors and licensed by the State of Illinois. We require title insurance on all first mortgage loans. Borrowers must obtain hazard insurance, or flood insurance for loans on property located in a flood zone, before closing the loan.

We participate with the USDA Rural Development Company to offer loans to qualifying customers. Loans are granted up to 100% of appraised value and the USDA guarantees up to 80% of the loan. These loans require no down payment but are subject to maximum income limitations.

Lines of Credit. We offer lines of credit, principally home equity lines of credit, which have adjustable rates of interest that are indexed to the prime rate as published in The Wall Street Journal for terms of up to 20 years. These loans are originated with maximum loan-to-value ratios of 80% of the appraised value of the property, and we require that we have a second lien position on the property. We also offer secured and unsecured lines of credit for well-qualified individuals and small businesses. Management includes these loans based on the collateral supporting the line of credit in either the non-residential, multi-family, commercial or one-to-four family categories for the purposes of monitoring and evaluating the portfolio.

Multi-Family and Non-Residential Real Estate Loans. We offer fixed rate balloon and adjustable-rate mortgage loans secured by multi-family and non-residential real estate. Our multi-family and non-residential real estate loans are generally secured by condominiums, apartment buildings, single-family subdivisions and owner-occupied properties used for businesses.

We originate and purchase multi-family and non-residential real estate loans with terms generally up to 25 years. Interest rates and payments on adjustable-rate loans adjust every one, three and five years. Interest rates and payments on our adjustable rate loans generally are adjusted to a rate typically equal to the interest rate used for one- to- four family loan products, plus 50 basis points to 100 basis points based on credit-worthiness and risk. The adjustment per period is 1% to 2% based on the loan contract, to a lifetime cap of 5%. Loan amounts generally do not exceed 70% of the appraised value for well-qualified borrowers.

We originate and purchase land loans to individuals on approved residential building lots for personal use for terms of up to 15 years and to a maximum loan to value ratio of 80% of the appraisal value. Our land loans are adjustable loans with adjustments occurring every one, three and five years, based on the original contract. Interest rate adjustments are based on the COFI plus a spread. For adjustable loans in this class, the loans generally have a floor ranging from the initial rate up to 5.25%.

We also make non-residential loans for commercial development projects including condominiums, apartment buildings, single-family subdivisions, single-family speculation loans, as well as owner-occupied properties used for business. These loans provide for payment of interest only during the construction phase and may, in the case of an apartment or commercial building, convert to a permanent mortgage loan. In the case of a single family subdivision or construction or builder loan, as individual lots are sold, the principal balance is reduced by a minimum of 80% of the net lot sales price. In the case of a commercial construction loan, the construction period may be from nine months to two years. Loans are generally made to a maximum of 70% of the appraised value as determined by an appraisal of the property made by an independent licensed appraiser. We also require periodic inspections of the property during the term of the construction loan. The largest non-residential loan at December 31, 2012 was a recent TDR for $1.8 million. As a TDR, this loan will need to perform per its modified terms for a reasonable period before it is returned to a performing status. For adjustable loans in this category, there generally is an interest rate floor ranging from 3.75% to 6.00%.

Loans secured by multi-family and non-residential real estate generally have larger balances and involve a greater degree of risk than one-to-four family residential mortgage loans. Of primary concern in multi-family and non-residential real estate lending is the borrower’s credit-worthiness and the feasibility and cash flow potential of the project. Payments on loans secured by income producing properties often depend on successful operation and management of the properties. As a result, repayment of such loans may be subject, to a greater extent than residential real estate loans, to adverse conditions in the real estate market or the economy. In reaching a decision on whether to

make a multi-family or non-residential real estate loan, we consider the net operating income of the property, the borrower's expertise, credit history and profitability, and the value of the underlying property.

Commercial Loans. These loans consist of operating lines of credit secured by general business assets and equipment. We loan primarily to businesses with less than $5,000,000 in annual revenues. The operating lines of credit are generally short term in nature with interest rates tied to short term rates and adjustments occurring daily, monthly, or quarterly based on the original contract. For adjustable loans, there is an interest rate floor built in to them ranging from 3.75% to 6.00%. The equipment loans are typically made with maturities of less than five years and are priced with a fixed interest rate. The Bank has originated commercial loans from Bankers Healthcare Group in prior years. Bankers Healthcare Group specializes in loans to healthcare professionals of all specialties throughout the United States. These loans are primarily comprised of working capital and equipment loans. We underwrite these loans based on our criteria and service the loans in-house.

Consumer Loans. We offer a variety of consumer loans, which include auto, share loans and personal unsecured loans to our customer base and related individuals. Unsecured loans generally have a maximum borrowing limit of $25,000 and a maximum term of four years.

The procedures for underwriting consumer loans include an assessment of the applicant's payment history on other debts and ability to meet existing obligations and payments on the proposed loans. Although the applicant's credit-worthiness is a primary consideration, the underwriting process also includes a comparison of the value of the collateral, if any, to the proposed loan amount.

Consumer loans may entail greater risk than do residential mortgage loans, particularly in the case of consumer loans that are unsecured or secured by assets that depreciate rapidly. In such cases, repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment for the outstanding loan and the remaining deficiency often does not warrant further substantial collection efforts against the borrower. In addition, consumer loan collections depend on the borrower's continuing financial stability, and therefore are more likely to be adversely affected by job loss, divorce, illness, or personal bankruptcy. Furthermore, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws may limit the amount which can be recovered on such loans.

Purchased Auto Loans. The Bank purchases auto loans from regulated financial institutions. At December 31, 2012 and 2011, we had $7.8 million and $5.2 million of loans outstanding, respectively. These types of loans are primarily low balance individual auto loans. We have the opportunity to review the loans at least three days prior to our purchase and we have a right to refuse any specific loan within thirty days of the purchase of any given loan pool. During 2012, we purchased $5.8 million of auto loans.

Loan Origination, Purchases and Sales. Loan originations come from a number of sources. The primary source of loan originations are our in-house loan originators, and to a lesser extent, advertising and referrals from customers. We occasionally purchase loans or participation interests in loans. As of December 31, 2012, we had an aggregate of $12.9 million in purchased loan participations outstanding, including the auto loans purchased as discussed in the previous paragraph. The largest outstanding loan participation as of December 31, 2012 was $1.1 million. This loan is performing in accordance with its terms.

We sell some of the longer-term fixed-rate one-to-four family mortgage loans that we originate in the secondary market based on prevailing market interest rate conditions, an analysis of the composition and risk of the loan portfolio, liquidity needs and interest rate risk management goals. Generally, loans are sold without recourse and with servicing retained. We sold $8.4 million and $0.6 million of loans in the years ended December 31, 2012 and 2011, respectively. We occasionally sell participation interests in loans and may sell loan participations in the future.

The following table shows our loan originations, purchases, sales and repayment activities for the periods indicated.

	For The Years Ended December 31,				
	2012	2011	2010	2009	2008
	(In Thousands)				
Beginning balance, net	$127,972	$135,351	$148,700	$156,444	$157,702
Loans originated					
One-to-four family	12,924	5,666	19,872	25,587	14,500
Multi-family	77	129	562	2,245	518
Lines of credit	381	1,799	530	5,315	2,664
Non-residential real estate	3,888	4,015	1,085	2,196	2,115
Commercial	285	335	8,287	7,738	2,514
Construction	105	982	668	710	1,799
Consumer	265	190	481	961	1,301
Total loans originated	17,925	13,116	31,485	44,752	25,411
Loans purchased					
One-to-four family	-	-	-	-	-
Multi-family	-	-	-	4	24
Non-residential real estate	-	-	-	895	744
Commercial	-	-	-	-	-
Consumer	5,847	3,050	2,003	-	1,800
Total loans purchased	5,847	3,050	2,003	899	2,568
Loan sales(1)	(8,333)	(598)	(8,713)	(14,772)	(2,785)
Principal payments	(22,890)	(22,927)	(36,912)	(37,658)	(27,584)
Change in allowance for loan losses	1,366	(44)	(1,188)	(1,910)	(1,000)
Change in undisbursed loan funds	115	7	(26)	962	2,148
Change in deferred loan costs (fees), net	(7)	17	2	(17)	(16)
Ending balance, net	$121,995	$127,972	$135,351	$148,700	$156,444

(1) All loan sales were one-to-four family loans.

Loan Approval Procedures and Authority. Our lending activities follow written, non-discriminatory underwriting standards and loan origination procedures established by our Board of Directors and management.

For one-to-four family loans and owner occupied residential loans, our President may approve loans up to $400,000 and two members of our Board of Directors must approve loans over $400,000. Residential loans and all commercial loans above $400,000 up to $1 million in the aggregate to any borrower(s) must be approved by a majority of our inside loan committee. This committee consists of our President, Vice President and our Commercial Banking Officer. For loans to any borrower(s) in the aggregate of more than $1 million up to $2 million, approval is required by a majority of our level two loan committee, which consists of the inside loan committee, one designated outside director and our Chairman of the Board. For loan requests above $2 million in the aggregate to any borrower(s), approval is required by a majority of the Board of Directors level loan committee, which consists of the inside loan committee and the Bank's Board of Directors as a whole.

Loans to One Borrower. The maximum amount that we may lend to one borrower and the borrower's related entities is limited by regulation to generally 15% of our stated capital and reserves. At December 31, 2012, our regulatory maximum was $3.2 million.

Loan Commitments. We issue commitments for fixed-rate and adjustable-rate mortgage loans conditioned upon the occurrence of certain events. Commitments to originate mortgage loans are legally binding agreements to lend to our customers and generally expire in 45 days.

Delinquencies. When a borrower fails to make a required loan payment, we take a number of steps to have the borrower cure the delinquency and restore the loan to current status. We make initial contact with the borrower when the loan becomes 10 days past due. If payment is not then received by the 30th day of delinquency, additional letters are sent and phone calls generally are made to the customer by the Vice President or President. When the loan becomes 60 days past due, we generally commence foreclosure proceedings against any real property that secures the loan or attempt to repossess any personal property that secures a consumer loan. If a foreclosure action is instituted and the loan is not brought current, paid in full, or refinanced before the foreclosure sale, the real property securing the loan generally is sold at foreclosure. We may consider loan workout arrangements with certain borrowers under certain circumstances.

Management informs the Board of Directors on a monthly basis of the amount of loans delinquent more than 60 days, all loans in foreclosure and all foreclosed and repossessed property that we own.

Delinquent Loans

The following table presents information with respect to the delinquent loans at the dates indicated.

	December 31, 2012					
	60-89 Days		90 Days or More		Total	
	(Dollars in Thousands)					
	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance
One-to-four family	5	$ 616	8	$ 613	13	$ 1,229
Multi-family	-	-	-	-	-	-
Lines of credit	-	-	3	1,009	3	1,009
Non-residential real estate	1	335	3	516	4	851
Construction	-	-	-	-	-	-
Commercial	-	-	-	-	-	-
Consumer	1	19	-	-	1	19
Total	7	$ 970	14	$ 2,138	21	$ 3,108

	December 31, 2011					
	60-89 Days		90 Days or More		Total	
	(Dollars in Thousands)					
	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance
One-to-four family	3	$ 849	25	$ 2,459	28	$ 3,308
Multi-family	-	-	1	305	1	305
Lines of credit	-	-	7	1,980	7	1,980
Non-residential real estate	1	57	5	709	6	766
Construction	-	-	-	-	-	-
Commercial	-	-	1	7	1	7
Consumer	2	43	2	5	4	48
Total	6	$ 949	41	$ 5,465	47	$ 6,414

	December 31, 2010					
	60-89 Days		90 Days or More		Total	
	(Dollars in Thousands)					
	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance
One-to-four family	9	$ 1,948	31	$ 3,622	40	$ 5,570
Multi-family	-	-	-	-	-	-

Lines of credit	4		228	6		401	10		629
Non-residential real estate	2		184	8		1,248	10		1,432
Construction	-		-	-		-	-		-
Commercial	-		-	1		20	1		20
Consumer	3		23	-		-	3		23
Total	18	$	2,383	46	$	5,291	64	$	7,674

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	December 31, 2009					
	60-89 Days		90 Days or More		Total	
	(Dollars in Thousands)					
	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance
One-to-four family	11	$ 777	26	$ 3,856	37	$ 4,633
Multi-family	-	-	-	-	-	-
Lines of credit	2	139	6	248	8	387
Non-residential real estate	2	153	7	2,020	9	2,173
Construction	-	-	-	-	-	-
Consumer	2	1	3	25	5	26
Total	17	$ 1,070	42	$ 6,149	59	$ 7,219

	December 31, 2008					
	60-89 Days		90 Days or More		Total	
	(Dollars in Thousands)					
	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance
One-to-four family	21	$ 1,550	31	$ 3,534	52	$ 5,084
Multi-family	-	-	2	453	2	453
Lines of credit	1	48	5	73	6	121
Non-residential real estate	7	1,550	2	1,188	9	2,738
Construction	1	54	-	-	1	54
Consumer	7	70	5	32	12	102
Total	37	$ 3,272	45	$ 5,280	82	$ 8,552

Classified Assets. Federal Deposit Insurance Corporation regulations and our Asset Classification Policy provide that loans and other assets considered to be of lesser quality be classified as “substandard,” “doubtful” or “loss” assets. An asset is considered “substandard” if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. “Substandard” assets include those characterized by the “distinct possibility” that the institution will sustain “some loss” if the deficiencies are not corrected. Assets classified as “doubtful” have all of the weaknesses inherent in those classified “substandard,” with the added characteristic that the weaknesses present make “collection or liquidation in full,” on the basis of currently existing facts, conditions and values, “highly questionable and improbable.” Assets classified as “loss” are those considered “uncollectible” and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. We classify an asset as “special mention” if the asset has a potential weakness that warrants management’s close attention. While such assets are not impaired, management has concluded that if the potential weakness in the asset is not addressed, the value of the asset may deteriorate, adversely affecting the repayment of the asset. Loans classified as impaired for financial reporting purposes are generally those loans classified as substandard or doubtful for regulatory reporting purposes.

An insured institution is required to establish allowances for loan losses in an amount deemed prudent by management for loans classified substandard or doubtful, as well as for other problem loans. General allowances represent loss allowances which have been established to recognize the inherent losses associated with lending activities, but which,

unlike specific allowances, have not been allocated to particular problem assets. When an insured institution classifies problem assets as "loss," it is required to charge off such amounts. An institution's determination as to the classification of its assets and the amount of its valuation allowances is subject to review by the Office of the Comptroller of the Currency ("OCC").

On the basis of management's review of its assets, at December 31, 2012 and 2011, we had classified $4.4 million and $4.9 million, respectively, of our assets as special mention and $5.6 million and $10.3 million, respectively, of our assets as substandard. We had classified none of our assets as doubtful at December 31, 2012 and December 31, 2011. There were no assets classified as loss for the years ended December 31, 2012 or 2011. The loan portfolio is reviewed on a regular basis to determine whether any loans require classification in accordance with applicable regulations. Not all classified assets constitute non-performing assets.

As the economic downturn continued in our market during 2012 and foreclosures and liquidations as a manner of reducing non-performing assets proved costly, the Company initiated a restructuring process with respect to certain non-performing loans that provided for restructuring of the terms of the loan due to economic or legal reasons related to the borrower's financial difficulties. Troubled debt restructurings are considered to be non-performing, except for those that have established a sufficient performance history (generally a minimum of six consecutive months of performance) under the terms for the restructured loan. At December 31, 2012, 7 loans (with aggregate balances of $3.1 million) of our 23 substandard loans (with aggregate balances of $5.6 million) were considered troubled debt restructurings and were included in nonperforming assets. At December 31, 2011, 15 loans (with aggregate balances of $4.1 million) of our 72 substandard loans (with aggregate balances of $10.3 million) were considered troubled debt restructurings and were included in nonperforming assets.

The following table shows the amounts and relevant ratios of nonperforming assets for the periods indicated:

	December 31,				
	2012	2011	2010	2009	2008
Non-accrual:			(In Thousands)		
One-to-four family	$ 3,067	$ 6,755	$ 4,023	$ 3,856	$ 3,534
Multi-family	-	305	-	-	453
Non-residential real estate	2,986	1,566	1,248	2,020	1,188
Commercial	-	7	20	-	-
Consumer	-	14	-	25	32
Total non-accrual loans	6,053	8,647	5,291	5,901	5,207
Past due greater than 90 days and still accruing:					
One-to-four family	92	36	-	-	-
Lines of credit	15	-	-	248	73
Non-residential real estate	164	-	-	-	-
Total nonperforming loans	6,324	8,683	5,291	6,149	5,280
Foreclosed real estate	1,297	542	1,334	833	95
Total nonperforming assets	$ 7,621	$ 9,225	$ 6,625	$ 6,982	$ 5,375

Ratios

	December 31,				
	2012	2011	2010	2009	2008
Allowance for loan losses as a percent of gross loans receivable	2.69 %	3.57 %	3.35 %	2.31 %	1.01 %
Allowance for loan losses as a percent of total nonperforming loans	53.46 %	54.67 %	88.89 %	57.16 %	30.40 %
Nonperforming loans as a percent of gross loans receivable	5.04 %	6.53 %	3.77 %	4.03 %	3.32 %
Nonperforming loans as a percent of total assets	3.53 %	4.75 %	2.71 %	3.06 %	2.55 %
Nonperforming assets as a percent of total assets	4.26 %	5.04 %	3.40 %	3.48 %	2.61 %

The total amount of non-accrual loans decreased to $6.1 million from $8.6 million for the years ended December 31, 2012 and 2011, respectively. Total non-performing loans consist of 29 loans to 23 borrowers for the year ended December 31, 2012, as compared to 58 loans to 31 borrowers for December 31, 2011. For the years ended December 31, 2012 and 2011, gross interest income of $246,000 and $562,000, respectively, would have been recorded had the non-accrual loans at the end of the period been on accrual status throughout the period. We recognized no interest income on these loans.

Allowance for Loan Losses

Our allowance for loan losses is maintained at a level necessary to absorb loan losses which are both probable and reasonably estimable. Management, in determining the allowance for loan losses, considers the losses inherent in its

loan portfolio and changes in the nature and volume of loan activities, along with the general economic and real estate market conditions. We utilize a two-tier approach: (1) identification of impaired loans and establishment of specific loss allowances on such loans; and (2) establishment of general valuation allowances on the remainder of our loan portfolio. We maintain a loan review system, which allows for a periodic review of our loan portfolio and the early identification of potential impaired loans. Such system takes into consideration, among other things, delinquency status, size of loans, type and market value of collateral and financial condition of the borrowers. Specific loan loss allowances are established for identified losses based on a review of such information. A loan evaluated for impairment is considered to be impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. All loans identified as impaired are evaluated independently. We do not aggregate such loans for evaluation purposes. Loan impairment is measured based on the present value of expected future cash flows discounted at the loan’s effective interest rate or, as a practical expedient, at the loan’s observable market price or the fair value of the collateral if the loan is collateral dependent. General loan loss allowances are based upon a combination of factors including, but not limited to management’s judgment and losses which are probable and reasonably estimable. The allowance is increased through provisions charged against current earnings, and offset by recoveries of previously charged-off loans. Loans which are determined to be uncollectible are charged against the allowance. Management uses available information to recognize probable and reasonably estimable loan losses, but future loss provisions may be necessary based on changing economic conditions. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual status. Should full collection of principal be expected, cash collected on nonaccrual loans can be recognized as interest income. The allowance for loan losses as of December 31, 2012 is maintained at a level that represents management’s best estimate of losses inherent in the loan portfolio, and such losses were both probable and reasonably estimable. In addition, the OCC, as an integral part of its examination process, periodically reviews our allowance for loan losses.

Allowance for Loan Losses. The following table analyzes changes in the allowance for the periods indicated.

	Year Ended December 31,				
	2012	2011	2010	2009	2008
	(Dollars in Thousands)				
Balance at beginning of year	$ 4,747	$ 4,703	$ 3,515	$ 1,605	$ 605
Charge-offs:					
One-to-four family	2,352	1,666	821	360	63
Multi-family	133	250	-	-	-
Non-residential real estate	772	3,224	952	773	-
Commercial	52	-	321	-	-
Consumer	27	43	48	69	105
	3,336	5,183	2,142	1,202	168
Recoveries:					
One-to-four family	49	1	3	35	-
Multi-family	-	-	-	148	-
Non-residential real estate	-	35	-	-	-
Consumer	9	11	18	18	4
	58	47	21	201	4
Net charge-offs	3,278	5,136	2,121	1,001	164
Additions charged to operations	1,912	5,180	3,309	2,911	1,164
Balance at end of year	$ 3,381	$ 4,747	$ 4,703	$ 3,515	$ 1,605
Net charge-offs to average gross loans outstanding	2.52 %	3.79 %	1.45 %	0.64 %	0.10 %

Allocation of Allowance for Loan Losses. The following table presents an analysis of the allocation of the allowance for loan losses at the dates indicated. The allocation of the allowance to each category is not necessarily indicative of future loss in any particular category and does not restrict the use of the allowance to absorb losses in other categories.

	2012		
	Amount	Percent Of Allowance To Total Allowance	Percent Of Gross Loans In Each Category To Total Gross Loans
	(Dollars in Thousands)		
One-to-four family	$ 2,057	60.84 %	60.24 %
Multi-family	162	4.79 %	3.69 %
Lines of credit (1)	-	- %	10.52 %
Non-residential real estate	1,012	29.93 %	15.06 %
Commercial	75	2.22 %	3.76 %
Construction (1)	-	- %	0.08 %
Consumer	75	2.22 %	6.65 %
Total allowance for loan losses	$ 3,381	100.00 %	100.00 %

	2011		
	Amount	Percent Of Allowance To Total Allowance (Dollars in Thousands)	Percent Of Gross Loans In Each Category To Total Gross Loans
One-to-four family	$3,113	65.58 %	60.41 %
Multi-family	438	9.23 %	4.20 %
Lines of credit (1)	-	- %	10.69 %
Non-residential real estate	1,146	24.14 %	15.08 %
Commercial	11	0.23 %	4.49 %
Construction (1)	-	- %	0.74 %
Consumer	39	0.82 %	4.39 %
Total allowance for loan losses	$4,747	100.00 %	100.00 %

		2010 (Dollars in Thousands)	
One-to-four family	$2,425	51.56%	58.75%
Multi-family	106	2.25%	4.44%
Lines of credit (1)	-	-%	10.92%
Non-residential real estate	1,880	39.98%	14.51%
Commercial	227	4.83%	6.98%
Construction (1)	-	0.00%	0.38%
Consumer	65	1.38%	4.02%
Total allowance for loan losses	$4,703	100.00%	100.00%

		2009 (Dollars in Thousands)	
One-to-four family	$2,059	58.58%	58.76%
Multi-family	55	1.57%	3.62%
Lines of credit (1)	-	-%	9.54%
Non-residential real estate	1,193	33.94%	14.33%
Commercial	120	3.41%	6.90%
Construction (1)	-	-%	2.53%
Consumer	88	2.50%	4.32%
Total allowance for loan losses	$3,515	100.00%	100.00%

		2008 (Dollars in Thousands)	
One-to-four family	$504	31.40%	62.83%
Multi-family	47	2.93%	2.39%
Lines of credit (1)	-	-%	8.35%
Non-residential real estate	876	54.58%	14.11%

Commercial	29	1.81%	2.75%
Construction (1)	-	-%	3.24%
Consumer	149	9.28%	6.33%
Total allowance for loan losses	$1,605	100.00%	100.00%

(1) Allowances applicable to Lines of Credit and Construction loans are maintained in the related category of the underlying collateral.

Each quarter, management evaluates the total balance of the allowance for loan losses based on several factors that are not loan specific, but are reflective of the inherent losses in the loan portfolio. This process includes, but is not limited to, a periodic review of loan collectability in light of historical experience, the nature and volume of loan activity, conditions that may affect the ability of the borrower to repay, underlying value of collateral, if applicable, and economic conditions in our immediate market area. First, we group loans by delinquency status. All loans 90 days or more delinquent and all loans classified as substandard or doubtful are evaluated individually, based primarily on the value of the collateral securing the loan. Specific loss allowances are established as required by this analysis. All loans for which a specific loss allowance has not been assigned are segregated by type and delinquency status and a loss allowance is established by using loss experience data and management's judgment concerning other matters it considers significant. The allowance is allocated to each category of loan based on the results of the above analysis.

Total allowance for loan losses decreased $1.3 million to $3.4 million at December 31, 2012 from $4.7 million at December 31, 2011. The decrease in the allowances for loan losses was primarily due to the decrease of specific reserves on impaired loans which decreased $2.1 million. Impaired loans were $5.6 million with a valuation allowance of $178,000 at December 31, 2012, as compared to $10.3 million of impaired loans with a valuation allowance of $2.3 million at December 31, 2011. Offsetting this decrease was an increase of $0.8 million in the general portion of the reserve. The increase in the general portion was caused by the charge-off volume causing the historical loss percentage to increase in many categories but especially in the one to four family category. There was also an overall increase in the qualitative factors which increased the historical loss factors applied as well. During 2012, management continued to aggressively address several nonperforming loans either by restructuring the loans or by writing down the balances to a level that reflects the significant declines in the market value of the underlying collateral, both of which resulted in a continued elevated level of charge-offs over prior years. The charge-offs in 2012 were primarily in the one-to-four family real estate segment, which also impacted the allowance for that segment as the historical percentage increased. Management increased the qualitative factors for the one-to-four family, purchased auto, non-residential, and commercial segments. The local economies deteriorated in 2012 and the value of underlying collateral continued to decline. As a result, management increased the qualitative factors in these segments as borrowers continued to struggle on an overall basis as the local economies struggled with higher unemployment and increased gas prices. For the purchased auto segment, management increased the qualitative factors slightly as the size of this portfolio increased.

This analysis process is inherently subjective, as it requires us to make estimates that are susceptible to revisions as more information becomes available. Although we believe that we have established the allowance at a level to absorb probable and estimable losses, additions may be necessary if economic or other conditions in the future differ from the current environment.

Investment Activities

We have legal authority to invest in various types of liquid assets, including U.S. Treasury obligations, securities of various federal agencies and of state and municipal governments, mortgage-backed securities and certificates of deposit of federally insured institutions.

At December 31, 2012, our investment portfolio consisted primarily of municipal securities with maturities of five to more than ten years and residential mortgage-backed securities issued by Fannie Mae, Freddie Mac, and Ginnie Mae with stated final maturities of 30 years or less.

Our investment objectives are to provide and maintain liquidity, to maintain a balance of high quality, diversified investments to minimize risk, to provide collateral for pledging requirements, to establish an acceptable level of interest rate risk, to provide an alternate source of low-risk investments when demand for loans is weak, and to generate a favorable return. Our Board of Directors has the overall responsibility for our investment portfolio, including approval of our investment policy and appointment of our Investment Committee. The Investment Committee is responsible for approval of investment strategies and monitoring of investment performance. Our President is the designated investment officer and the CFO and the President are responsible for the daily investment activities and are authorized to make investment decisions consistent with our investment policy. The Investment Committee, consisting of five external Board of Director members, meets regularly with the President and CFO to review and determine investment strategies and transactions.

The following table sets forth the carrying value of our investment portfolio at the dates indicated.

	December 31,					
	2012		2011		2010	
	Carrying	Fair	Carrying	Fair	Carrying	Fair

	Amount	Value	Amount	Value	Amount	Value
			(In Thousands)			
Available-for-sale						
US agency securities	$-	$-	$3,031	$3,031	$5,569	$5,569
State and municipal securities	7,121	7,121	3,706	3,706	-	-
Residential mortgage-backed securities	21,743	21,743	26,270	26,270	26,894	26,894
Total available-for-sale	$28,864	$28,864	$33,007	$33,007	$32,463	$32,463

Portfolio Maturities and Yields. The composition and maturities of the investment securities portfolio at December 31, 2012 are summarized in the following table. Maturities are based on the final contractual payment dates, and do not reflect the impact of prepayments or early redemptions that may occur. Certain mortgage-backed securities have interest rates that are adjustable and will re-price annually within the various maturity ranges. These re-pricing schedules are not reflected in the table below.

	At December 31, 2012									
	One Year or Less		More than One Year Through Five Years		More than Five Years Through Ten Years		More than Ten Years		Total Securities	
	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield
	(Dollars in Thousands)									
Available-for-sale securities:										
State and municipal securities	$ -	- %	$ -	- %	$ 2,711	4.63 %	$ 4,410	5.15 %	$ 7,121	4.95 %
Residential mortgage-backed securities	-	- %	19,437	2.58 %	1,604	2.53 %	702	1.89 %	21,743	2.55 %
Total securities available-for-sale	$ -	- %	$ 19,437	2.58 %	$ 4,315	3.85 %	$ 5,112	4.70 %	$ 28,864	3.15 %

Deposit Activities and Other Sources of Funds

General. Deposits and loan repayments are the major sources of our funds for lending and other investment purposes. Loan repayments are a relatively stable source of funds, while deposit inflows and outflows and loan prepayments are significantly influenced by general interest rates and money market conditions.

Deposit Accounts. The vast majority of our depositors are residents of LaSalle County. Deposits are raised primarily from within our primary market area through the offering of a broad selection of deposit instruments, including checking accounts, money market accounts, regular savings accounts, club savings accounts, certificate accounts and various retirement accounts. The Bank also is a member of the Certificate of Deposit Registry Service (CDARS), which allows the Bank to retain high deposit relationships with its depository customer base, while still allowing the customer to enjoy FDIC deposit insurance on amounts in excess of the current limit of $250,000. Other than our relationship with CDARS, we do not utilize brokered funds. Deposit account terms vary according to the minimum balance required, the time periods the funds must remain on deposit, and the interest rate among other factors. In determining the terms of our deposit accounts, we consider the rates offered by our competition, profitability to us, matching deposit and loan products and customer preferences and concerns. We generally review our deposit mix and pricing weekly. Our current strategy is to offer competitive rates, but not be the market leader in every type and maturity.

The following table sets forth the dollar amount of deposits by type as of the dates indicated.

	December 31,								
	2012			2011			2010		
	Amount	Percent Of Total		Amount	Percent Of Total		Amount	Percent Of Total	
				(Dollars In Thousands)					
Non-Interest Bearing Checking	$4,314	2.78	%	$4,039	2.53	%	$3,536	2.07	%
Interest Bearing Checking	12,425	8.01	%	12,124	7.58	%	10,220	5.98	%
Money Market accounts	20,666	13.33	%	18,875	11.80	%	21,875	12.80	%
Passbook savings accounts	15,218	9.81	%	13,595	8.50	%	12,909	7.56	%
Certificates of Deposit accounts	102,452	66.07	%	111,315	69.59	%	122,291	71.59	%
Total deposit accounts	$155,075	100.00	%	$159,948	100.00	%	$170,831	100.00	%
Certificate Accounts, by rate									
Less than 1.00%	$35,118	34.28	%	$32,522	29.22	%	$11,406	9.33	%
1.00% to 1.99%	24,781	24.19	%	22,700	20.39	%	47,696	39.00	%
2.00% to 2.99%	32,124	31.35	%	34,830	31.29	%	39,335	32.17	%
3.00% to 3.99%	9,571	9.34	%	17,264	15.51	%	19,019	15.55	%
4.00% to 4.99%	858	0.84	%	3,463	3.11	%	3,973	3.25	%
5.00% to 5.99%	-	-	%	536	0.48	%	862	0.70	%
Total Certificate Accounts	$102,452	100.00	%	$111,315	100.00	%	$122,291	100.00	%

The following table sets forth the distribution of average deposit accounts, by account type, at the dates indicated.

	Years Ended December 31,								
	2012			2011			2011		
	Weighted Avg. Rate		Average Amount	Weighted Avg. Rate		Average Amount	Weighted Avg. Rate		Average Amount
	(Dollars In Thousands)								
Non-Interest Bearing Checking	-	%	$3,882	-	%	$3,539	-	%	$3,300
Interest Bearing Checking	0.06	%	12,493	0.11	%	11,282	0.17	%	10,164
Money Market accounts	0.29	%	20,369	0.56	%	20,544	0.72	%	23,775
Passbook accounts	0.08	%	15,026	0.10	%	13,444	0.15	%	12,017
Certificate of Deposit accounts	1.70	%	107,805	2.03	%	114,205	2.23	%	128,244
Total	1.21	%	$159,575	1.53	%	$163,014	1.75	%	$177,500

Deposit Activity. The following table sets forth the deposit activities for the periods indicated.

	Years Ended December 31,					
	2012		2011		2010	
	(In Thousands)					
Beginning of period	$159,948		$170,831		$176,009	
Net deposits (withdrawals)	(6,916	)	(13,267	)	(8,368	)
Interest credited on deposit accounts	2,043		2,384		3,190	
End of period	$155,075		$159,948		$170,831	
Percent change	(3.05	)%	(6.37	)%	(2.94	)%

The following table indicates the amount of certificates of deposit as of December 31, 2012, by time remaining until maturity.

	Three Months Or Less	Over Three To Six Months	Over Six To Twelve Months	Over Twelve Months	Total
			(In Thousands)		
Less than $100,000	$9,179	$9,457	$20,160	$21,857	$60,653
$100,000 to $250,000	2,619	5,409	11,634	13,062	32,724
Over $250,000	266	1,048	2,232	5,529	9,075
Total	$12,064	$15,914	$34,026	$40,448	$102,452

	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Total
			(In Thousands)			
Less than 1.00%	$ 22,745	$ 8,754	$ 2,162	$ 1,457	$ -	$ 35,118
1.00% to 1.99%	14,102	3,709	556	1,589	4,825	24,781
2.00% to 2.99%	18,277	8,996	4,246	605	-	32,124
3.00% to 3.99%	6,022	1,709	1,840	-	-	9,571
4.00% to 4.99%	858	-	-	-	-	858
5.00% to 5.99%	-	-	-	-	-	-
Total	$ 62,004	$ 23,168	$ 8,804	$ 3,651	$ 4,825	$ 102,452

Borrowings. If necessary, we borrow from the Federal Home Loan Bank of Chicago to supplement our supply of lendable funds and to meet deposit withdrawal requirements. The Federal Home Loan Bank functions as a central reserve bank providing credit for member financial institutions. As a member, we are required to own capital stock in the Federal Home Loan Bank of Chicago and are authorized to apply for advances on the security of such stock and certain of our mortgage loans and other assets (principally securities that are obligations of, or guaranteed by, the United States), provided certain standards related to credit-worthiness have been met. Advances are made under several different programs, each having its own interest rate and range of maturities. Depending on the program, limitations on the amount of advances are based either on a fixed percentage of an institution's net worth or on the Federal Home Loan Bank's assessment of the institution's credit-worthiness. Under its current credit policies, the Federal Home Loan Bank generally limits advances to 25% of a member's assets, and short-term borrowings of less than one year may not exceed 10% of the institution's assets. The Federal Home Loan Bank determines specific lines of credit for each member institution. There were no Federal Home Loan Bank advances outstanding at December 31, 2012. At December 31, 2012, we had the ability to borrow $53.0 million from the Federal Home Loan Bank of Chicago. In addition, as of December 31, 2012, the Bank had $5.0 million of available credit from Bankers Bank of Wisconsin to purchase federal funds.

Personnel

At December 31, 2012, we had 19 full-time employees and 5 part-time employees, none of whom is represented by a collective bargaining unit. We believe our relationship with our employees is good.

Subsidiaries

The Company's only subsidiary is Ottawa Savings Bank.

REGULATION AND SUPERVISION

General

Ottawa Savings Bank as an insured federal savings bank is subject to extensive regulation, examination and supervision by the Office of the Comptroller of the Currency ("OCC"), as its primary federal regulator, and the Federal Deposit Insurance Corporation, as the insurer of its deposits. Ottawa Savings Bank is a member of the Federal Home Loan Bank System and its deposit accounts are insured up to applicable limits by the Deposit Insurance Fund ("DIF") managed by the Federal Deposit Insurance Corporation. Ottawa Savings Bank must file reports with the OCC and the Federal Deposit Insurance Corporation concerning its activities and financial condition in addition to obtaining regulatory approvals prior to entering into certain transactions such as mergers with, or acquisitions of, other financial institutions. There are periodic examinations by the OCC and, under certain circumstances, the Federal Deposit Insurance Corporation to evaluate Ottawa Savings Bank's safety and soundness and compliance with various regulatory requirements. This regulatory structure is intended primarily for the protection of the insurance fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. Any change in such policies, whether by the OCC, the Federal Deposit Insurance Corporation or Congress, could have a material adverse impact on Ottawa Savings Bancorp, Inc., Ottawa Savings Bancorp MHC (see page 22) for discussion of the mutual holding company) and Ottawa Savings Bank and their operations.

Ottawa Savings Bancorp, Inc. and Ottawa Savings Bancorp MHC, as savings and loan holding companies, are required to file certain reports with, are subject to examination by, and otherwise must comply with the rules and regulations of the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"). Ottawa Savings

Bancorp, Inc. is also subject to the rules and regulations of the Securities and Exchange Commission under the federal securities laws.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") made extensive changes to the regulation and supervision of financial institutions, including the Bank. Under the Dodd-Frank Act, the Office Thrift Supervision ("OTS") was eliminated and responsibility for the supervision and regulation of federal savings associations was transferred to the OCC on July 21, 2011. The OCC is the agency that is primarily responsible for the regulation and supervision of national banks. At the same time, the responsibility for supervising and regulating the savings and loan holding companies like Ottawa Savings Bancorp, Inc. and Ottawa Savings Bancorp MHC was transferred to the Federal Reserve Board. In addition, the Dodd-Frank Act created a new agency, the Consumer Financial Protection Bureau which assumed responsibility for the implementation of the federal financial consumer protection and fair lending laws and regulations and has authority to impose new requirements. However, institutions of $10.0 billion or less in assets will continue to be examined for compliance with consumer protection and fair lending laws and regulations by, and be subject to the enforcement authority of, their prudential regulator rather than the Consumer Financial Protection Bureau. Many of the provisions of the Dodd-Frank Act require the issuance of regulations before their impact on operations can be fully assessed by management. However, there is a significant possibility that the Dodd-Frank Act will, at a minimum, result in increased regulatory burden and compliance costs for Ottawa Savings Bank, Ottawa Savings Bancorp, Inc. and Ottawa Savings Bancorp MHC.

Certain of the regulatory requirements that are applicable to Ottawa Savings Bank, Ottawa Savings Bancorp, Inc. and Ottawa Savings Bancorp MHC are described below. This description of statutes and regulations is not intended to be a complete explanation of such statutes and regulations and their effects on Ottawa Savings Bank, Ottawa Savings Bancorp, Inc. and Ottawa Savings Bancorp MHC and is qualified in its entirety by reference to the actual statutes and regulations.

Regulation of Federal Savings Banks

Business Activities. Federal laws and regulations govern the activities of federal savings banks, such as the Ottawa Savings Bank. These laws and regulations delineate the nature and extent of the activities in which federal savings banks may engage. In particular, certain lending authority for federal savings banks, e.g., commercial, non-residential real property loans and consumer loans, is limited to a specified percentage of the institution's capital or assets.

The Dodd-Frank Act authorizes depository institutions to pay interest on commercial demand deposits effective July 21, 2011.

Capital Requirements. The applicable capital regulations require federal savings banks to meet three minimum capital standards: a 1.5% tangible capital to total assets ratio; a 4% Tier 1 capital to total assets leverage ratio (3% for institutions receiving the highest rating on the CAMELS examination rating system) and an 8% risk-based capital ratio. In addition, the prompt corrective action standards discussed below also establish, in effect, a minimum 2% tangible capital standard, a 4% leverage ratio (3% for institutions receiving the highest rating on the CAMELS system) and, together with the risk-based capital standard itself, a 4% Tier 1 risk-based capital standard. The regulations also require that, in meeting the tangible, leverage and risk-based capital standards, banks must generally deduct investments in and loans to subsidiaries engaged in activities as principal that are not permissible for a national bank.

The risk-based capital standard requires federal savings banks to maintain Tier 1 (core) and total capital (which is defined as core capital and supplementary capital, less certain specified deductions from total capital such as reciprocal holdings of depository institution capital, instruments and equity investments) to risk-weighted assets of at least 4% and 8%, respectively. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets, recourse obligations, residual interests and direct credit substitutes, are multiplied by a risk-weight factor of 0% to 100%, assigned by the capital regulation based on the risks believed inherent in the type of asset. Core (Tier 1) capital is generally defined as common stockholders' equity (including retained earnings), certain non-cumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries, less intangibles other than certain mortgage servicing rights and credit card relationships. The components of supplementary (Tier 2) capital currently include cumulative preferred stock, long-term perpetual preferred stock, mandatory convertible securities, subordinated debt and intermediate preferred stock, the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and up to 45% of unrealized gains on available-for-sale equity securities with readily determinable fair market values. Overall, the amount of supplementary capital included as part of total capital cannot exceed 100% of core capital.

The OCC also has authority to establish individual minimum capital requirements in appropriate cases upon a determination that an institution's capital level is or may become inadequate in light of the particular circumstances. At December 31, 2012, the Bank met each of its capital requirements.

Savings and loan holding companies are not currently subject to specific regulatory capital requirements. The Dodd-Frank Act, however, requires the Federal Reserve Board to promulgate consolidated capital requirements for depository institution holding companies, including savings and loan holding companies, that are no less stringent, both quantitatively and in terms of components of capital, than those applicable to institutions themselves. On August 30, 2012, the federal banking agencies issued proposed rules that would implement the "Basel III" regulatory capital reforms and changes required by the Dodd-Frank Act. "Basel III" refers to two consultative documents released by the Basel Committee on Banking Supervision in December 2009, the rules text released in December 2010, and loss absorbency rules issued in January 2011, which include significant changes to bank capital, leverage and liquidity requirements.

The proposed rules include new risk-based capital and leverage ratios, which would be phased in from 2013 to 2019, and would revise the definition of what constitutes "capital" for purposes of calculating those ratios. The proposed new minimum capital level requirements applicable to Ottawa Savings Bancorp, Inc. and Ottawa Savings Bank under the proposals would be: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 capital ratio of 6% (increased from 4%); (iii) a total capital ratio of 8% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 4% for all institutions. The proposed rules would eliminate the inclusion of certain instruments, such as trust preferred securities, from tier 1 capital. Instruments issued prior to May 19, 2010 will be grandfathered for companies with consolidated assets of $15 billion or less and phased out over a period of 10 years ending in 2022. The proposed rules would also establish a "capital conservation buffer" of 2.5% above the new regulatory minimum capital requirements, which must consist entirely of common equity Tier 1 capital and would result in the following minimum ratios: (i) a common equity Tier 1 capital ratio of 7.0%, (ii) a Tier 1 capital ratio of 8.5%, and (iii) a total capital ratio of 10.5%. The new capital conservation buffer requirement would be phased in beginning in January 2016 at 0.625% of risk-weighted assets and would increase by that amount each year until fully implemented in January 2019. An institution would be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations would establish a maximum percentage of eligible retained income that could be utilized for such actions.

Prompt Corrective Regulatory Action. The OCC is required to take certain supervisory actions against undercapitalized institutions, the severity of which depends upon the institution's degree of undercapitalization. Generally, a savings bank that has a ratio of total capital to risk weighted assets of less than 8%, a ratio of Tier 1 (core) capital to risk-weighted assets of less than 4% or a ratio of core capital to total assets of less than 4% (3% or less for institutions with the highest examination rating) is considered to be "undercapitalized." A savings bank that has a total risk-based capital ratio less than 6%, a Tier 1 capital ratio of less than 3% or a leverage ratio that is less than 3% is considered to be "significantly undercapitalized" and a savings bank that has a tangible capital to assets ratio equal to or less than 2% is deemed to be "critically undercapitalized." Subject to a narrow exception, the OCC is required to appoint a receiver or conservator within specified time frames for an institution that is "critically undercapitalized." An institution must file a capital restoration plan with the OCC within 45 days of the date it receives notice that it is "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." Compliance with the plan must be guaranteed by any parent holding company. In addition, numerous mandatory supervisory actions become immediately applicable to an undercapitalized institution, including, but not limited to, increased monitoring by regulators and restrictions on growth, capital distributions and expansion. "Significantly undercapitalized" and "critically undercapitalized" institutions are subject to more extensive mandatory regulatory actions. The OCC could also take any one of a number of discretionary supervisory actions, including the issuance of a capital directive and the replacement of senior executive officers and directors.

In addition to the increase in capital requirements set forth in the Dodd-Frank Act, federal banking agencies have the authority to impose higher capital requirements on an individual bank basis. These requirements may be greater than those set forth in the Dodd-Frank Act or that would qualify a bank as being "well capitalized" under the FDIC's prompt corrective action regulations.

Loans to One Borrower. Federal law provides that savings banks are generally subject to the limits on loans to one borrower applicable to national banks. Generally, subject to certain exceptions, savings banks may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of its unimpaired capital and surplus. An additional amount may be lent, equal to 10% of unimpaired capital and surplus, if secured by specified readily-marketable collateral.

Standards for Safety and Soundness. The federal banking agencies have adopted Interagency Guidelines prescribing Standards for Safety and Soundness in various areas such as internal controls and information systems, internal audit, loan documentation and credit underwriting, interest rate exposure, asset growth and quality, earnings and compensation, fees and benefits. The guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. If the OCC determines that a savings bank fails to meet any standard prescribed by the guidelines, the OCC may require the savings bank to submit an acceptable plan to achieve compliance with the standard.

Limitation on Capital Distributions. Federal regulations impose limitations upon all capital distributions by a savings bank, including cash dividends, payments to repurchase its shares and payments to stockholders of another institution in a cash-out merger. Under the regulations, an application to and the prior approval of the OCC is required before any capital distribution if the savings bank does not meet the criteria for "expedited treatment" of applications under OCC regulations (i.e., generally, examination and Community Reinvestment Act ratings in the two top categories), the total capital distributions for the calendar year exceed net income for that year plus the amount of retained net income for the preceding two years, the savings bank would be undercapitalized following the distribution or the distribution would otherwise be contrary to a statute, regulation or agreement with the OCC. If an application is not required, the savings bank must still provide 30 days prior written notice to the Federal Reserve Board of the capital distribution if, like Ottawa Savings Bank, it is a subsidiary of a holding company, as well as a written notice filing with the OCC. If Ottawa Savings Bank's capital were ever to fall below its regulatory requirements or the OCC notified it that it was in need of increased supervision, its ability to make capital distributions could be restricted. In addition, the OCC could

prohibit a proposed capital distribution that would otherwise be permitted by the regulation, if the agency determines that such distribution would constitute an unsafe or unsound practice.

Qualified Thrift Lender Test. Federal law requires savings banks to meet a qualified thrift lender test. Under the test, a savings bank is required to either qualify as a “domestic building and loan association” under the Internal Revenue Code or maintain at least 65% of its “portfolio assets” (total assets less: (i) specified liquid assets up to 20% of total assets; (ii) intangibles, including goodwill; and (iii) the value of property used to conduct business) in certain “qualified thrift investments” (primarily multi-family residential mortgages and related investments, including certain mortgage-backed securities but also including education, credit card and small business loans) in at least 9 months out of each 12 month period.

A savings bank that fails the qualified thrift lender test is subject to certain operating restrictions. The Dodd-Frank Act also specifies that failing the qualified thrift lender test is a violation of law that could result in an enforcement action and dividend limitations. As of December 31, 2012, Ottawa Savings Bank maintained 90.4% of its portfolio assets in qualified thrift investments and, therefore, met the qualified thrift lender test.

Transactions with Related Parties. Federal law limits Ottawa Savings Bank's authority to lend to, and engage in certain transactions (collectively, "covered transactions") with "affiliates" (e.g., any company that controls or is under common control with an institution), including Ottawa Savings Bancorp, Inc. and Ottawa Savings Bancorp MHC). The aggregate amount of covered transactions with any individual affiliate is limited to 10% of the capital and surplus of the savings institution. The aggregate amount of covered transactions with all affiliates is limited to 20% of the savings institution's capital and surplus. Loans and other specified transactions with affiliates are required to be secured by collateral in an amount and of a type described in federal law. The purchase of low quality assets from affiliates is generally prohibited. Transactions with affiliates must be on terms and under circumstances that are at least as favorable to the institution as those prevailing at the time for comparable transactions with non-affiliated companies. In addition, savings banks are prohibited from lending to any affiliate that is engaged in activities that are not permissible for bank holding companies and no savings bank may purchase the securities of any affiliate other than a subsidiary.

The Sarbanes-Oxley Act of 2002 generally prohibits loans by the Company to its executive officers and directors. However, the Sarbanes-Oxley Act contains a specific exemption from such prohibition for loans by Ottawa Savings Bank to its executive officers and directors in compliance with federal banking regulations. Federal regulations require that all loans or extensions of credit to executive officers and directors of insured institutions and 10% stockholders ("insiders"), as well as entities such persons control, must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and must not involve more than the normal risk of repayment or present other unfavorable features.. The law restricts both the individual and aggregate amount of loans Ottawa Savings Bank may make to insiders based, in part, on Ottawa Savings Bank's capital position and requires certain board approval procedures to be followed. There is an exception for loans made pursuant to a benefit or compensation program that is widely available to all employees of the institution and does not give preference to insiders over other employees. Additional restrictions apply to loans to executive officers.

Enforcement. The OCC has primary enforcement responsibility over federal savings banks and has the authority to bring actions against the institution and all institution-affiliated parties, including stockholders, and any attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on an insured institution. Formal enforcement action may range from the issuance of a capital directive or cease and desist order, to removal of officers and/or directors, to institution of receivership, conservatorship or termination of deposit insurance. Civil penalties cover a wide range of violations and can amount to $25,000 per day, or even $1 million per day in especially egregious cases subject to adjustments for inflaton. The Federal Deposit Insurance Corporation ("FDIC") has authority to recommend to the OCC that enforcement action be taken with respect to a particular savings institution. If action is not taken by the OCC, the FDIC has authority to take such action under certain circumstances. Federal law also establishes criminal penalties for certain violations.

Assessments. Federal savings banks are required to pay assessments to the OCC to fund its operations. The general assessments, paid on a semi-annual basis, are based upon the savings bank's total assets, including consolidated subsidiaries, as reported in the institution's latest quarterly thrift financial report or call report, its financial condition and the complexity of its portfolio. The OCC assessments paid by Ottawa Savings Bank for the year ended December 31, 2012 was approximately $99,000.

Insurance of Deposit Accounts. The Bank's deposits are insured up to applicable limits, which have increased to $250,000 per depositor by the Deposit Insurance Fund ("DIF") of the FDIC.

Under the FDIC's risk-based assessment system, insured institutions are assigned to one of four risk categories based on supervisory evaluations, regulatory capital levels and certain other factors, with less risky institutions paying lower assessments. An institution's assessment rate depends upon the category to which it is assigned. Effective April 1,

2009, assessment rates range from seven to 77.5 basis points. The FDIC may adjust the scale uniformly from one quarter to the next, except that no adjustment can deviate more than three basis points from the base scale without notice and comment. No institution may pay a dividend if in default of the federal deposit insurance assessment.

On February 7, 2011, the FDIC approved a final rule that implemented changes to the deposit insurance assessment system mandated by the Dodd-Frank Act. The final rule, which took effect for the quarter beginning April 1, 2011, requires that the base on which deposit insurance assessments are charged be revised from one that is based on domestic deposits to one that is based on average consolidated total assets minus average tangible equity. Under the final rule, insured depository institutions are required to report their average consolidated total assets on a daily basis, using the regulatory accounting methodology established for reporting total assets. For purposes of the final rule, tangible equity is defined as Tier 1 capital.

The FDIC imposed on each insured institution a special emergency assessment of five basis points of total assets minus tier 1 capital, as of June 30, 2009 (capped at ten basis points of an institution's deposit assessment base on the same date) in order to cover losses to the Deposit Insurance Fund. That special assessment was collected on September 30, 2009. Although the FDIC provided for similar special assessments for the first two fiscal quarters of 2010, the FDIC required insured institutions to prepay estimated quarterly risk-based assessments for the fourth quarter of 2009 through the fourth quarter of 2012. The estimated assessments, which include an assumed annual assessment base increase of 5%, were recorded as a prepaid expense asset as of December 31, 2009. As of December 31, 2009, and each quarter thereafter, a charge to earnings will be recorded for each regular assessment with an offsetting credit to the prepaid asset.

Due to the recent difficult economic conditions, deposit insurance per account owner has been raised to $250,000. That coverage was made permanent by the Dodd-Frank Act. In addition, the FDIC adopted an optional Temporary Liquidity Guarantee Program by which, for a fee, noninterest-bearing transaction accounts would receive unlimited insurance coverage until June 30, 2010, subsequently extended to December 31, 2010, and certain senior unsecured debt issued by institutions and their holding companies between October 13, 2008 and October 31, 2009 would be guaranteed by the FDIC through June 30, 2012, or in some cases, December 31, 2012. The Bank opted to participate in the unlimited noninterest-bearing guarantee program. The Dodd-Frank Act extended the unlimited overage for certain noninterest-bearing transaction accounts from January 1, 2011 until December 31, 2012 without the opportunity for opt out.

In addition to the assessment for deposit insurance, institutions are required to make payments on bonds issued in the late 1980s by the Financing Corporation to recapitalize a predecessor deposit insurance fund. That payment is established quarterly and during the four quarters ended December 31, 2012 averaged 0.67 basis points of assessable deposits.

The Dodd-Frank Act increased the minimum Deposit Insurance Fund ratio from 1.15% of estimated insured deposits to 1.35% of estimated insured deposits. The FDIC must seek to achieve the 1.35% ratio by September 30, 2020. Insured institution with assets of $10.0 billion or more are supposed to fund the increase. The Dodd-Frank Act eliminated the 1.5% maximum fund ratio, instead leaving it to the discretion of the FDIC and the FDIC has recently exercised that discretion by establishing a long range fund of 2%.

The FDIC has authority to increase insurance assessments. A significant increase in insurance premiums would likely have an adverse effect on the operating expenses and results of operations of Ottawa Savings Bank. Management cannot predict what insurance assessment rates will be in the future.

Insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC or the OCC. The management of Ottawa Savings Bank does not know of any practice, condition or violation that might lead to termination of deposit insurance.

Federal Reserve System. The Federal Reserve Board regulations require savings associations to maintain noninterest-earning reserves against their transaction accounts (primarily Negotiable Order of Withdrawal "NOW" and regular checking accounts). The amounts are adjusted annually and, for 2012, the regulations provide that reserves be maintained against aggregate transaction accounts as follows: a 3% reserve ratio is assessed on net transaction accounts up to and including $71.0 million; a 10% reserve ratio is applied above $71.0 million. The first $11.5 million of otherwise reservable balances are exempted from the reserve requirements. The Bank complies with the foregoing requirements.

Federal Home Loan Bank System. Ottawa Savings Bank is a member of the Federal Home Loan Bank System, which consists of twelve regional Federal Home Loan Banks. The Federal Home Loan Bank provides a central credit facility primarily for member institutions. Ottawa Savings Bank, as a member of the Federal Home Loan Bank of Chicago, is required to acquire and hold shares of capital stock in that Federal Home Loan Bank. Ottawa Savings Bank had an investment in Federal Home Loan Bank of Chicago stock at December 31, 2012 of $1.1 million.

The Federal Home Loan Banks are required to provide funds for the resolution of insolvent thrifts in the late 1980s and to contribute funds for affordable housing programs. These requirements, as well as general financial results, could reduce the amount of dividends that the Federal Home Loan Banks pay to their members and could also result in the Federal Home Loan Banks imposing a higher rate of interest on advances to their members. If dividends were reduced, or interest on future Federal Home Loan Bank advances increased, our net interest income would likely also be reduced.

Community Reinvestment Act. Under the Community Reinvestment Act, as implemented by OCC regulations, a savings bank has a continuing and affirmative obligation consistent with its safe and sound operations to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The Community Reinvestment Act does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the Community Reinvestment Act. The Community Reinvestment Act requires the OCC, in connection with its examination of a savings bank, to assess the institution's record of compliance with the Community Reinvestment Act. In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit lenders from discriminating in their lending practices on the basis of characteristics specified in those statutes. A savings bank's failure to comply with the provisions of the Community Reinvestment Act could result in denial of certain corporate applications, such as branches or mergers, or restrictions on its activities. Responsibility for administering the Community Reinvestment Act, unlike other fair lending laws, is not being transferred to the Consumer Financial Protection Bureau. The Bank's most recent Community Reinvestment Act rating was "satisfactory."

Holding Company Regulation

General. Ottawa Savings Bancorp, Inc. and Ottawa Savings Bancorp MHC are savings and loan holding companies within the meaning of federal law. As part of such, they are subject to Federal Reserve Board regulations, examinations, supervision, reporting requirements and regulations concerning corporate governance and activities. In addition, the Federal Reserve Board has enforcement authority over Ottawa Savings Bancorp, Inc. and Ottawa Savings Bancorp MHC. Among other things, this authority permits the Federal Reserve Board to restrict or prohibit activities that are determined to be a serious risk to Ottawa Savings Bank.

As part of the Dodd-Frank Act regulatory restructuring, the responsibilities of the OTS as to savings and loan holding companies were transferred to the Federal Reserve Board on July 21, 2011. The Federal Reserve Board is the agency that regulates bank holding companies.

Restrictions Applicable to Mutual Holding Companies. According to federal law and Federal Reserve Board regulations, a mutual holding company, such as Ottawa Savings Bancorp MHC, may generally engage in the following activities: (1) investing in the stock of a savings association; (2) acquiring a mutual association through the merger of such association into a savings association subsidiary of such holding company or an interim savings association subsidiary of such holding company; (3) merging with or acquiring another holding company, one of whose subsidiaries is a savings association; and (4) any activity approved by the Federal Reserve Board for a bank holding company or financial holding company or previously approved by the Federal Reserve Board for multiple savings and loan holding companies. In addition, mutual holding companies may engage in activities permitted for financial holding companies, expanded the authorized activities. Financial holding companies may engage in a broad array of financial service activities including insurance and securities.

Federal law prohibits a savings and loan holding company, including a federal mutual holding company, from directly or indirectly, or through one or more subsidiaries, acquiring more than 5% of the voting stock of another savings institution, or its holding company, without prior written approval of the Federal Reserve Board. Federal law also prohibits a savings and loan holding company from acquiring more than 5% of a company engaged in activities other than those authorized for savings and loan holding companies by federal law; or acquiring or retaining control of a depository institution that is not insured by the Federal Deposit Insurance Corporation. In evaluating applications by holding companies to acquire savings institutions, the Federal Reserve Board must consider the financial and managerial resources and future prospects of the company and institution involved, the effect of the acquisition on the risk to the insurance funds, the convenience and needs of the community and competitive factors.

The Federal Reserve Board is prohibited from approving any acquisition that would result in a multiple savings and loan holding company controlling savings institutions in more than one state, except: (1) the approval of interstate supervisory acquisitions by savings and loan holding companies; and (2) the acquisition of a savings institution in another state if the laws of the state of the target savings institution specifically permit such acquisitions. The states vary in the extent to which they permit interstate savings and loan holding company acquisitions.

If the savings institution subsidiary of a savings and loan holding company fails to meet the qualified thrift lender test, the holding company must register with the Federal Reserve Board as a bank holding company within one year of the savings institution's failure to so qualify.

Capital Requirements. Savings and loan holding companies are not currently subject to specific regulatory capital requirements. The Dodd-Frank Act, however, requires the Federal Reserve Board to promulgate consolidated capital requirements for depository institution holding companies that are no less stringent, both quantitatively and in terms of components of capital, than those applicable to institutions themselves. There is a five-year transition period (from the July 21, 2010 effective date of the Dodd-Frank Act) before the capital requirements will apply to savings and loan holding companies.

Source of Strength. The Dodd-Frank Act also extends the "source of strength" doctrine to savings and loan holding companies. The regulatory agencies must issue regulations requiring that all banks and savings and loan holding companies serve as a source of strength to their subsidiary depository institutions by providing capital, liquidity and other support in times of financial stress.

Dividends and Stock Repurchases. The Federal Reserve Board has issued a policy statement regarding the payment of dividends and the repurchase of shares of common stock by bank holding companies that it has made applicable to savings and loan holding companies as well. In general, the policy provides that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the holding company appears consistent with the organization's capital needs, asset quality and overall financial condition. Regulatory guidance provides for prior regulatory review of capital distributions in certain circumstances such as where the company's net income for the past four quarters, net of dividends previously paid over that period, is insufficient to fully fund the dividend or the company's overall rate of earnings retention is not consistent with the company's capital needs and overall financial condition. The ability of a holding company to pay dividends may be restricted if a subsidiary bank becomes undercapitalized. Moreover, a company should inform the Federal Reserve Board reasonably in advance of declaring or paying a dividend that exceeds earnings for the period for which the dividend is being paid. The policy statement also provides for regulatory review prior to a holding company redeeming or repurchasing regulatory capital instruments when the holding company is experiencing financial weaknesses or redeeming or repurchasing common stock or perpetual preferred stock that would result in a net reduction as of the end of a quarter in the amount of such equity instruments outstanding compared with the beginning of the quarter in which the redemption or repurchase occurred. These regulatory policies could affect the ability of the Company to pay dividends, repurchase shares of common stock or otherwise engage in capital distributions.

Stock Holding Company Subsidiary Regulation. The Federal Reserve Board has adopted regulations governing the two-tier mutual holding company form of organization and subsidiary stock holding companies that are controlled by mutual holding companies. Ottawa Savings Bancorp, Inc. is the stock holding company subsidiary of Ottawa Savings Bancorp MHC. Ottawa Savings Bancorp, Inc. is permitted to engage in activities that are permitted for Ottawa Savings Bancorp MHC subject to the same restrictions and conditions.

Waivers of Dividends. Federal Reserve Board regulations currently require mutual holding companies to notify them if they propose to waive receipt of dividends from their stock holding company subsidiary. In addition, the regulations require that the mutual holding company obtain the approval of a majority of the eligible votes of members of the mutual holding company (generally Bank depositors) before it can waive dividends. The Federal Reserve Board reviews dividend waiver notices on a case-by-case basis, and, in general, does not object to a waiver if: (i) the waiver would not be detrimental to the safe and sound operation of the savings association; and (ii) the mutual holding company's board of directors determines that their waiver is consistent with such directors' fiduciary duties to the mutual holding company's members. Subject to the non-objection or approval of the Federal Reserve Board, we anticipate that Ottawa Savings Bancorp MHC will waive dividends that Ottawa Savings Bancorp, Inc. may pay, if any.

Conversion to Stock Form. Federal Reserve Board regulations permit Ottawa Savings Bancorp MHC to convert from the mutual form of organization to the capital stock form of organization. In a conversion transaction, a new holding company would be formed as the successor to Ottawa Savings Bancorp MHC and Ottawa Savings Bancorp, Inc., Ottawa Savings Bancorp MHC's corporate existence would end and certain depositors in the Bank would receive a right to subscribe for shares of a new holding company. In a conversion transaction, each share of common stock of Ottawa Savings Bancorp, Inc. held by stockholders other than Ottawa Savings Bancorp MHC would be automatically converted into a number of shares of common stock of the new holding company based on an exchange ratio designed to ensure that stockholders other than Ottawa Savings Bancorp MHC own the same percentage of common stock in the new holding company as they owned in Ottawa Savings Bancorp, Inc. immediately before conversion. The total

number of shares held by stockholders other than Ottawa Savings Bancorp MHC after a conversion transaction would be increased by any purchases by such stockholders in the stock offering conducted as part of the conversion transaction.

Acquisition of Control. Under the federal Change in Bank Control Act, a notice must be submitted to the Federal Reserve Board if any person (including a company), or group acting in concert, seeks to acquire direct or indirect "control" of a savings and loan holding company or savings bank. Under certain circumstances, a change of "control" may occur, and prior notice is required, upon the acquisition of 10% or more of the voting stock of a savings and loan holding company or savings institution, unless the Federal Reserve Board has found that the acquisition will not result in a change of control. Under the Change in Bank Control Act, the Federal Reserve Board has 60 days from the filing of a complete notice to act, taking into consideration certain factors, including the financial and managerial resources of the acquirer and the anti-trust effects of the acquisition. Any company that so acquires control would then be subject to regulation as a savings and loan holding company.

Federal Securities Laws

Ottawa Savings Bancorp, Inc. common stock is registered with the Securities and Exchange Commission under the Securities Exchange Act of 1934. Ottawa Savings Bancorp, Inc. is subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Securities Exchange Act of 1934.

The registration, under the Securities Act of 1933, of the shares of common stock does not cover the resale of those shares. Shares of common stock purchased by persons who are not affiliates of Ottawa Savings Bancorp, Inc. may be resold without registration. Shares purchased by an affiliate of Ottawa Savings Bancorp, Inc. will be subject to the resale restrictions of Rule 144 under the Securities Act of 1933. If Ottawa Savings Bancorp, Inc. meets the current public information requirements of Rule 144, each affiliate of Ottawa Savings Bancorp, Inc. that complies with the other conditions of Rule 144, including those that require the affiliate's sale to be aggregated with those of other persons, would be able to sell in the public market, without registration, a number of shares not to exceed, in any three-month period, the greater of 1% of the outstanding shares of Ottawa Savings Bancorp, Inc., or the average weekly volume of trading in the shares during the preceding four calendar weeks. In the future, Ottawa Savings Bancorp, Inc. may permit affiliates to have their shares registered for sale under the Securities Act of 1933.

FEDERAL AND STATE TAXATION

Federal Income Taxation

General. We report our income on a fiscal year basis using the accrual method of accounting. The federal income tax laws apply to us in the same manner as to other corporations with some exceptions, including particularly our reserve for bad debts discussed below. The following discussion of tax matters is intended only as a summary and does not purport to be a comprehensive description of the tax rules applicable to us. Our federal income tax returns have been either audited or closed under the statute of limitations through tax year 2008. Ottawa Savings Bank's maximum federal income tax rate was 35% for both the 2012 and 2011 tax year.

Ottawa Savings Bancorp, Inc. has filed a consolidated federal income tax return with Ottawa Savings Bank. Accordingly, it is anticipated that any cash distributions made by Ottawa Savings Bancorp, Inc. to its stockholders would be treated as cash dividends and not as a non-taxable return of capital to stockholders for federal and state tax purposes.

Bad Debt Reserves. For fiscal years beginning before June 30, 1996, thrift institutions that qualified under certain definitional tests and other conditions of the Internal Revenue Code were permitted to use certain favorable provisions to calculate their deductions from taxable income for annual additions to their bad debt reserve. A reserve could be established for bad debts on qualifying real property loans, generally secured by interests in real property improved or to be improved, under the percentage of taxable income method or the experience method. The reserve for non-qualifying loans was computed using the experience method. Federal legislation enacted in 1996 repealed the reserve method of accounting for bad debts for institutions with assets in excess of $500 million and the percentage of taxable income method for all institutions for tax years beginning after 1995 and requires savings institutions to recapture or take into income certain portions of their accumulated bad debt reserves. Approximately $1.2 million of our accumulated bad debt reserves would not be recaptured into taxable income unless Ottawa Savings Bank makes a "non-dividend distribution" to Ottawa Savings Bancorp, Inc. as described below.

Distributions. If Ottawa Savings Bank makes "non-dividend distributions" to Ottawa Savings Bancorp, Inc., the distributions will be considered to have been made from Ottawa Savings Bank's un-recaptured tax bad debt reserves, to the extent of the "non-dividend distributions," and then from Ottawa Savings Bank's supplemental reserve for losses

on loans, to the extent of those reserves, and an amount based on the amount distributed, but not more than the amount of those reserves, will be included in Ottawa Savings Bank's taxable income. Non-dividend distributions include distributions in excess of Ottawa Savings Bank's current and accumulated earnings and profits, as calculated for federal income tax purposes, distributions in redemption of stock, and distributions in partial or complete liquidation. Dividends paid out of Ottawa Savings Bank's current or accumulated earnings and profits will not be so included in Ottawa Savings Bank's taxable income.

The amount of additional taxable income triggered by a non-dividend is an amount that, when reduced by the tax attributable to the income, is equal to the amount of the distribution. Therefore, if Ottawa Savings Bank makes a non-dividend distribution to Ottawa Savings Bancorp, Inc., approximately one and one-half times the amount of the distribution not in excess of the amount of the reserves would be includable in income for federal income tax purposes, assuming a 34% federal corporate income tax rate. Ottawa Savings Bank does not intend to pay dividends that would result in a recapture of any portion of its bad debt reserves.

Tax Allocation Agreement. Ottawa Savings Bancorp, Inc. and Ottawa Savings Bank have executed a Tax Allocation Agreement. The purpose of this agreement is to set forth the rights and obligations of Ottawa Savings Bancorp, Inc. and Ottawa Savings Bank for purposes of filing consolidated federal and state combined income tax returns.

Under the Tax Allocation Agreement, Ottawa Savings Bancorp, Inc. and Ottawa Savings Bank calculate their federal and state income tax liabilities as if they were filing a separate tax return. If there is tax liability calculated on this separate entity basis, Ottawa Savings Bank pays that tax liability to Ottawa Savings Bancorp, Inc. Payments are made no earlier than five days prior to the time that Ottawa Savings Bancorp, Inc. is required to make either estimated or final tax payments for the consolidated or combined return. If Ottawa Savings Bank has a taxable loss for a year on a separate entity basis, and if that loss could have been carried back to obtain a refund, Ottawa Savings Bancorp, Inc. pays an amount equal to such refund to Ottawa Savings Bank, whether or not any such refund is actually received on a consolidated or combined basis. If that taxable loss would not have resulted in a refund on a separate entity basis because there was no carryback available, but that loss is used on the consolidated or combined return to reduce tax liability on a consolidated or combined basis, Ottawa Savings Bancorp, Inc. pays Ottawa Savings Bank an amount equal to the tax savings from using that loss.

Ottawa Savings Bank is required to contribute to Ottawa Savings Bancorp, Inc. its share of any required estimated tax payments. When the consolidated or combined return is actually filed, if the estimated payments by Ottawa Savings Bank to Ottawa Savings Bancorp, Inc. exceed the amount of Ottawa Savings Bank's tax liability on a separate entity basis, Ottawa Savings Bancorp, Inc. will refund the excess to Ottawa Savings Bank. If Ottawa Savings Bank's tax liability on a separate entity basis exceeds the estimated payments it has paid to Ottawa Savings Bancorp, Inc., Ottawa Savings Bank will pay the deficiency to Ottawa Savings Bancorp, Inc.

State Taxation

Ottawa Savings Bancorp, Inc. is subject to the Illinois Income Tax and the Illinois Personal Property Tax Replacement Income Tax, at the rates of 7.0% and 2.5%, respectively, for fiscal year 2012. These amounts remained unchanged from 2011 levels. These taxes are imposed on our federal taxable income, with certain adjustments.

ITEM 1A. RISK FACTORS

Our allowance for loan losses may prove to be insufficient to absorb potential losses in our loan portfolio.

We established our allowance for loan losses and maintain it at a level considered adequate by management to absorb loan losses that are inherent in the portfolio. The amount of future loan losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates, which may be beyond our control, and such losses may exceed current estimates. At December 31, 2012, our allowance for loan losses as a percentage of total gross loans was 2.69% and as a percentage of total non-performing loans was approximately 53.46%. Because of the concentration of one-to-four family, non-residential and commercial loans in our loan portfolio, the movement of a small number of loans to non-performing status can have a significant impact on this ratio. Although management believes that the allowance for loan losses as of December 31, 2012 was adequate to absorb losses on any existing loans that may become uncollectible, in light of the current economic environment, we cannot predict loan losses with certainty, and we cannot assure you that our allowance for loan losses will prove sufficient to cover actual loan losses in the future, particularly if economic conditions worsen beyond what management currently expects. Additional provisions to the allowance for loan losses and loan losses in excess of our allowance for loan losses may adversely affect our business, financial condition and results of operations. For additional details, see "Management's Discussion and Analysis of Financial Condition and Results of Operation -- Comparison of Financial Condition at December 31, 2012 and December 31, 2011-- Provision for Loan Losses."

Our origination or purchase of non-residential real estate, multi-family, commercial or construction loans may expose us to increased lending risks.

Our loan portfolio includes non-residential real estate, multi-family, commercial and construction loans. We intend to continue to underwrite loans of this nature when it is prudent to do so from a business standpoint as long as the loans fall within internal policy limits and enable us to remain in compliance with regulatory guidelines and limits. These types of loans generally expose a lender to greater risk of non-payment and loss than one-to-four family residential mortgage loans because repayment of the loans often depends on the successful operation of the property and the income stream of the borrowers. Such loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to one-to-four family residential mortgage loans. Also, many of these types of borrowers have more than one loan outstanding with us. Consequently, an adverse development with respect to one loan or one credit relationship can expose us to a significantly greater risk of loss compared to an adverse development with respect to a one- to four-family residential mortgage loan.

Turmoil in the financial markets could have an adverse effect on our financial position or results of operations.

Beginning in 2008, United States and global markets experienced severe disruption and volatility, and general economic conditions declined significantly. Adverse developments in credit quality, asset values and revenue opportunities throughout the financial services industry, as well as general uncertainty regarding the economic, industry and regulatory environment, have had a marked negative impact on the industry. The United States and the governments of other countries have taken steps to try to stabilize the financial system, including investing in financial institutions, and have implemented programs intended to improve general economic conditions. Notwithstanding the actions of the United States and other governments, there can be no assurances that these efforts will be successful in restoring industry, economic or market conditions and that they will not result in adverse unintended consequences. Factors that could continue to pressure financial services companies, including Ottawa Savings Bancorp, Inc., are numerous and include (1) worsening credit quality, leading among other things to increases in loan losses and reserves, (2) continued or worsening disruption and volatility in financial markets, leading among other things to continuing reductions in assets values, (3) capital and liquidity concerns regarding financial institutions generally, (4) limitations resulting from or imposed in connection with governmental actions intended to stabilize or provide additional regulation of the financial system, or (5) recessionary conditions that are deeper or last longer than currently anticipated.

FDIC deposit insurance premiums might increase, which will adversely affect our earnings.

The recent economic recession has caused a high level of bank failures, which has dramatically increased FDIC resolution costs and led to a significant reduction in the balance of the Deposit Insurance Fund. During 2011, the FDIC modified its calculation for assessing premiums and shifted the responsibility for shoring up the shortfall in the DIF. The decrease in the base assessment rate that occurred in 2011 has decreased our deposit insurance costs from 2011 levels and positively impacted our earnings. In lieu of imposing an additional special assessment, the FDIC required all institutions to prepay their assessments for all of 2010, 2011 and 2012, which for us totaled $1.1 million. At the end of 2012, our remaining balance was $164,000. Any increases in the base assessment rate or additional special assessments would negatively impact our earnings.

Fluctuations in interest rates could reduce our profitability and affect the value of our assets.

Short-term market interest rates (which we use as a guide to price our deposits) have decreased to historically low levels, and longer-term market interest rates (which we use as a guide to price our longer-term loans) have also decreased to historically low levels. This change in the market yield curve has had a positive impact on our cost of funds. For the year ended December 31, 2012, our interest rate spread was 3.36% compared to 3.43% for the year ended December 31, 2011 due to the pressure on yields in our loan and investment portfolios. If short-term interest rates rise, and if rates on our deposits re-price upwards faster than the rates on our long-term loans and investments, we would experience compression of our interest rate spread and net interest margin, which would have a negative effect on our profitability. Over the last year however, the U.S. Federal Reserve has maintained its target for the federal funds rate at .25%. Decreases in interest rates can result in increased prepayments of loans and mortgage-related securities, as borrowers refinance to reduce their borrowing costs. Under these circumstances, we are subject to reinvestment risk as we may have to re-deploy such loan or securities proceeds into lower-yielding assets, which might also negatively impact our income.

Strong competition within our market area could hurt our profits and slow growth.

We face intense competition both in making loans and attracting deposits. This competition has made it more difficult for us to make new loans and at times has forced us to offer higher deposit rates. Price competition for loans and deposits might result in us earning less on our loans and paying more on our deposits, which reduces net interest

income. According to data obtained from the FDIC, as of June 30, 2012, we held approximately 6.3% of all bank and thrift deposits in LaSalle County, which was the 6th largest market share of deposits out of 24 financial institutions (excluding credit unions) in LaSalle County. Notwithstanding our market share, we face substantial competition from the other financial institutions that operate in our market area, most of which have substantially greater resources and lending limits than we have and may offer services that we do not provide. We expect competition to increase in the future as a result of legislative, regulatory and technological changes and the continuing trend of consolidation in the financial services industry. Our profitability depends upon our continued ability to compete successfully in our market area.

Our expansion strategy may negatively impact our earnings.

We consider our primary market area to consist of LaSalle County, Illinois. We currently operate from our headquarters located in Ottawa, Illinois. We may expand our presence throughout our market area and pursue further expansion through the establishment of one or more branches. The profitability of any expansion policy will depend on whether the income that we generate from the additional branches we establish will offset the increased expenses resulting from operating new branches. It may take a period of time before any new branches would become profitable, especially in areas in which we do not have an established presence. During this period, operating any new branches would likely have a negative impact on our net income.

The loss of any one of our senior executive officers could hurt our operations.

We rely heavily on our senior executive officers. The loss of any one of these officers could have an adverse effect on us because, as a small community bank, each of these officers has more responsibilities than would be typical at a larger financial institution with more employees. In addition, as a small community bank, we have fewer management level personnel who are in a position to assume the responsibilities of such officers' positions with us should we need to find replacements for any of these senior members of management. We do not have key-man life insurance on any of these officers.

Our geographic concentration means that our performance may be affected by economic, regulatory and demographic conditions in our market area.

As of December 31, 2012, most of our total loans were to individuals and/or secured by properties located in our primary market area of LaSalle County in Illinois. As a result, our revenues and profitability are subject to prevailing economic, regulatory, demographic and other conditions in LaSalle County. Because our business is concentrated in this area, adverse economic, regulatory, demographic or other developments that are limited to this area may have a disproportionately greater effect on us than they would have if we did business in markets outside that particular geographic area.

If the value of real estate in LaSalle County, Illinois were to decline materially, a significant portion of our loan portfolio could become under-collateralized, which could have a material adverse effect on us.

With most of our loans concentrated in LaSalle County, Illinois, a continued decline in local economic conditions could adversely affect the value of the real estate collateral securing our loans. The median home sale prices in LaSalle County have declined approximately 2.65% in the last 12 months after declining 20% since 2009. A further decline in property values would further diminish our ability to recover on defaulted loans by selling the real estate collateral, making it more likely that we would suffer losses on defaulted loans. Additionally, decreases in asset quality have required and may require further additions to our allowance for loan losses through increased provisions for loan losses, which would hurt our profits. Also, a continued decline in local economic conditions may have a greater effect on our earnings and capital than on the earnings and capital of larger financial institutions whose real estate loan portfolios are more geographically diverse. Real estate values are affected by various factors in addition to local economic conditions, including, among other things, changes in general or regional economic conditions, governmental rules or policies and natural disasters.

We continually encounter technological change, and we may have fewer resources than our competitors to continue to invest in technological improvements.

The financial services industry continues to undergo rapid technological changes, with frequent introductions of new technology-driven products and services. In addition to serving customers better, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success may depend, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We cannot assure you that we will be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers.

An interruption in or breach in security of our information systems may result in a loss of customer business.

We rely heavily on communications and information systems to conduct our business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in our customer relationship management, general ledger, deposits, and servicing or loan origination systems. The occurrence of any failures or interruptions could result in a loss of customer business and have a material adverse effect on our business, financial condition, results of operations and cash flows.

The trading history of our common stock is characterized by low trading volume. The value of your common stock may be subject to sudden decreases due to the volatility of the price of our common stock.

Although our common stock trades on OTC Electronic Bulletin Board, it has not been regularly traded. We cannot predict the extent to which investor interest in us will lead to a more active trading market in our common stock or how liquid that market might become. A public trading market having the desired characteristics of depth, liquidity and orderliness depends upon the presence in the marketplace of willing buyers and sellers of our common stock at any given time, which presence is dependent upon the individual decisions of investors, over which we have no control.

The market price of our common stock may be highly volatile and subject to wide fluctuations in response to numerous factors, including, but not limited to, the factors discussed in other risk factors and the following:

- actual or anticipated fluctuations in our operating results;
- changes in interest rates;
- changes in the legal or regulatory environment in which we operate;
- press releases, announcements or publicity relating to us or our competitors or relating to trends in our industry;
- changes in expectations as to our future financial performance, including financial estimates or recommendations by securities analysts and investors;
- future sales of our common stock;
- changes in economic conditions in our marketplace, general conditions in the U.S. economy, financial markets or the banking industry; and
- other developments affecting our competitors or us.

These factors may adversely affect the trading price of our common stock, regardless of our actual operating performance, and could prevent you from selling your common stock at or above the price at which you purchased shares. In addition, the stock markets, from time to time, experience extreme price and volume fluctuations that may be unrelated or disproportionate to the operating performance of companies. These broad fluctuations may adversely affect the market price of our common stock, regardless of our trading performance.

We operate in a highly regulated environment and we may be adversely affected by changes in laws and regulations.

We are subject to extensive regulation, supervision and examination by the OCC, our chartering authority and the FDIC, as insurer of our deposits. Ottawa Savings Bancorp MHC, Ottawa Savings Bancorp, Inc. and Ottawa Savings Bank are all subject to regulation and supervision by the Federal Reserve Board. Such regulation and supervision governs the activities in which an institution and its holding company may engage, and are intended primarily for the protection of the insurance fund and depositors. Regulatory authorities have extensive discretion in their supervisory and enforcement activities, including the imposition of restrictions on our operations, the classification of our assets and determination of the level of our allowance for loan losses. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, legislation or supervisory action, may have a material impact on our operations.

Recently enacted financial regulatory reform may have a material impact on our operations.

On July 21, 2010, the President signed into law the Dodd-Frank Act. The Dodd-Frank Act restructures the regulation of depository institutions. Under the Dodd-Frank Act, the OTS, which formerly regulated the Bank, was merged into the OCC. Savings and loan holding companies, including Ottawa Savings Bancorp MHC and Ottawa Savings Bancorp, are now regulated by the Federal Reserve Board. The Dodd-Frank Act also created a new federal agency to administer consumer protection and fair lending laws, a function that was formerly performed by the depository institution regulators. The federal preemption of state laws that was formerly accorded federally chartered depository institutions has been reduced as well and State Attorneys General now have greater authority to bring a suit against a federally chartered institution, such as Ottawa Savings Bank, for violations of certain state and federal consumer protection laws. The Dodd-Frank Act also imposes consolidated capital requirements on savings and loan holding companies effective in five years, which will limit our ability to borrow at the holding company and invest the proceeds from such borrowings as capital in Ottawa Savings Bank that could be leveraged to support additional growth. The Dodd-Frank Act contains various other provisions designed to enhance the regulation of depository institutions and prevent the recurrence of a financial crisis such as occurred in 2008-2009. The full impact of the Dodd-Frank Act on our business and operations will not be known for years until regulations implementing the statute are written and adopted. The Dodd-Frank Act may have a material impact on our operations, particularly through

increased regulatory burden and compliance costs.

In addition to the enactment of the Dodd-Frank Act, the federal regulatory agencies recently have begun to take stronger supervisory actions against financial institutions that have experienced increased loan losses and other weaknesses as a result of the current economic crisis. The actions include the entering into of written agreements and cease and desist orders that place certain limitations on their operations. Federal bank regulators recently have also been using with more frequency their ability to impose individual minimal capital requirements on banks, which requirements may be higher than those imposed under the Dodd-Frank Act or which would otherwise qualify the bank as being "well capitalized" under the OCC's prompt corrective action regulations. If we were to become subject to a supervisory agreement or higher individual capital requirements, such action may have a negative impact on our ability to execute our business plans, as well as our ability to grow, pay dividends or engage in mergers and acquisitions and may result in restrictions in our operations. See "Regulation and Supervision – Federal Banking Regulation – Capital Requirements" for a discussion of regulatory capital requirements.

The Federal Reserve Board has adopted an interim final rule which requires Ottawa Savings Bancorp, MHC to notify the Federal Reserve Board if it proposes to waive receipt of dividends from the Company. In addition, the regulations also require that Ottawa Savings Bancorp, MHC obtain the approval of a majority of the eligible votes of members of the Ottawa Savings Bancorp, MHC (generally Bank depositors) before it can waive dividends. For a grandfathered company such as Ottawa Savings Bancorp, MHC that waived dividends prior to December 1, 2009, the Federal Reserve Board may not object to a dividend waiver request if the board of directors of the mutual holding company expressly determines that a waiver of the dividend is consistent with its fiduciary duties to members and the waiver would not be detrimental to the safe and sound operation of the savings association subsidiaries of the holding company. The Federal Reserve Board's interim final rule regarding dividend waiver requests is subject to comment and there can be no assurances as to the timing of changes to the interim final rule, if any, the form of the final dividend waiver regulations or the effect of such regulations on Ottawa Savings Bancorp, MHC's ability to waive dividends.

While Ottawa Savings Bancorp, MHC is grandfathered for purposes of the Federal Reserve Board dividend waiver regulations, we cannot assure that the Federal Reserve Board will grant dividend waiver requests in the future and, if granted, there can be no assurance as to the conditions, if any, the Federal Reserve Board will place on future dividend waiver requests. The denial of a dividend waiver request or the imposition of burdensome conditions on an approval of a waiver request may significantly limit the amount of dividends the Company pays in the future, if any.

The Federal Reserve Board policy on remutualization transactions could prohibit acquisition of Ottawa Savings Bancorp, which may adversely affect our stock price.

Current Federal Reserve Board regulations permit a mutual holding company to be acquired by a mutual institution in a remutualization transaction. However, Ottawa Savings Bancorp's former regulator, the OTS, had adopted a policy statement indicating that it viewed remutualization transactions as raising significant issues concerning disparate treatment of minority stockholders and mutual members of the target entity and raising issues concerning the effect on the mutual members of the acquiring entity. The Federal Reserve Board has not adopted a similar policy statement or issued on the matter and future Federal Reserve Board regulation may negatively affect Ottawa Savings Bancorp. Under certain circumstances, the Federal Reserve Board may give these issues special scrutiny and reject applications providing for the remutualization of a mutual holding company unless the applicant can clearly demonstrate that the Federal Reserve Board's concerns are not warranted in the particular case. Should the Federal Reserve Board prohibit or otherwise restrict these transactions in the future, our per share stock price may be adversely affected.

There can be no assurance that enacted legislation or any proposed federal programs will stabilize the U.S. financial system and such legislation and programs may adversely affect us.

There has been much legislative and regulatory action in response to the financial crisis affecting the banking system and financial markets and threats to investment banks and other financial institutions. There can be no assurance, however, as to the actual impact that the legislation and its implementing regulations or any other governmental program will have on the financial markets. The failure of the actions by the legislators, the regulatory bodies or the U.S. government to stabilize the financial markets and a continuation or worsening of current financial market conditions could materially and adversely affect our business, financial condition, results of operations, and access to credit or the trading price of our common shares.

The fiscal and monetary policies of the federal government and its agencies could have a material adverse effect on our earnings.

The Board of Governors of the Federal Reserve System regulates the supply of money and credit in the United States. Its policies determine in large part the cost of funds for lending and investing and the return earned on those

loans and investments, both of which affect the net interest margin. The resultant changes in interest rates can also materially decrease the value of certain financial assets we hold, such as debt securities. Its policies can also adversely affect borrowers, potentially increasing the risk that they may fail to repay their loans. Changes in Federal Reserve Board policies are beyond our control and difficult to predict; consequently, the impact these changes on our activities and results of operations is difficult to predict.

The recent ratings downgrade of the United States Government may adversely affect us.

In July, 2011, certain rating agencies placed the United States government's long-term sovereign debt rating on their equivalent of negative watch and announced the possibility of a credit rating downgrade. On August 5, 2011, Standard & Poor's downgraded the United States long-term debt rating from its AAA rating to AA+. On August 8, 2011, Standard & Poor's downgraded the credit ratings of certain long-term debt instruments issued by Fannie Mae and Freddie Mac and other U.S. government agencies linked to long-term U.S. debt. Instruments of this nature are key assets on the balance sheets of financial institutions, including the Company. These downgrades could adversely affect the market values of such instruments, and could adversely impact our ability to obtain funding that is collateralized by affected instruments, as well as affecting the pricing of that funding when it is available. We cannot predict if, when or how these changes to the credit ratings will affect economic conditions, the Company's operations or our financial results. These ratings downgrades could result in a significant adverse impact to us, and could exacerbate the other risks to which we are subject, including those described above.

We may be subject to more stringent capital requirements.

As discussed previously, the Dodd-Frank Act would require the federal banking agencies to establish stricter risk-based capital requirements and leverage limits to apply to banks and bank holding companies. In addition, the "Basel III" standards recently announced by the Basel Committee on Banking Supervision (the 'Basel Committee'), if adopted, could lead to significantly higher capital requirements, higher capital charges and more restrictive leverage and liquidity rations. The standards would, among other things, impose more restrictive eligibility requirements for Tier 1 and Tier 2 capital, increase the minimum Tier 1 common equity ratio to 4.5%, net of regulatory deductions, and introduce a capital conservation buffer of an additional 2.5% of common equity to risk-weighted assets, raising the target minimum common equity ratio to 7%, increase the minimum Tier 1 capital ratio to 8.5% inclusive of the capital conservation buffer, increase the minimum total capital ratio to 10.5% inclusive of the capital buffer and introduce a countercyclical capital buffer of up to 2.5% of common equity or other fully loss absorbing capital for periods of excess credit growth. Basel III also introduces a non-risk adjusted Tier 1 leverage ratio of 3%, based on a measure of total exposure rather than total assets, and new liquidity standards.

The new Basel III capital standards will be phased in from January 1, 2013 until January, 2019 and it is not yet known how these standards will be implemented by U.S. regulators generally or how they will be applied to financial institutions of our size. Implementation of these standards, or any other new regulations, may adversely affect our ability to pay dividends, or require us to restrict growth or raise capital, including in ways that may adversely affect our results of operations or financial condition.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company is located and conducts its business at the Bank's main office at 925 LaSalle Street, Ottawa, Illinois 61350. The Company owns the building. The Company believes that the current facility is adequate to meet its present and immediately foreseeable needs.

The following table sets forth certain information relating to this facility at December 31, 2012.

Location	Year	Net Book	Square	Owned/	Date of

	Opened/ Acquired	Value at December 31, 2012	Footage	Leased	Lease Expiration
925 LaSalle Street, Ottawa, IL 61350	1958	$ 6,484,000	21,000	Owned	N/A

ITEM 3. LEGAL PROCEEDINGS

The Company and the Bank are not involved in any pending proceedings other than legal proceedings occurring in the ordinary course of business. Such legal proceedings, in the aggregate, are believed by management to be immaterial to the Company’s business, financial condition, results of operations and cash flows.

ITEM 4. MINE SAFETY PROCEEDINGS

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's common stock is traded on the Over-the-Counter ("OTC") Bulletin Board under the symbol "OTTW". At December 31, 2012, the Company had 352 record holders of its common stock. The table below shows the reported high and low sale price of the common stock, as reported on the OTC Bulletin Board and dividends declared during the periods indicated in 2012 and 2011. Quotations reflect inter-dealer prices without mark-up, mark-down or commissions, and may not represent actual transactions.

	2012			2011		
	High	Low	Dividends Declared	High	Low	Dividends Declared
First quarter	$5.75	$3.11	$-	$8.79	$5.25	$0.05
Second quarter	$12.00	$4.25	$-	$8.25	$5.55	$0.05
Third quarter	$8.85	$4.75	$-	$7.84	$4.10	$-
Fourth quarter	$7.85	$5.31	$-	$5.50	$3.02	$-

Dividend Policy

The Company paid no cash dividends during 2012 and $0.10 per share during 2011. On August 18, 2011, the Company announced that the Board of Directors voted to suspend the equity cash dividend on the Company's common stock in an effort to conserve capital, and that the board intended to reevaluate the payment of a quarterly dividend on a quarter-by-quarter basis. The Board of Directors will declare dividends upon consideration of a number of factors, including capital requirements, the Company's and the Bank's financial condition and results of operations, tax considerations, statutory and regulatory limitations and general economic conditions. No assurances can be given that any dividends will be paid or that, if paid, will not be reduced or eliminated in future periods. Special cash dividends, stock dividends or returns of capital may, to the extent permitted by regulations, be paid in addition to, or in lieu of, regular cash dividends. The Company has filed consolidated tax returns with the Bank. Accordingly, it is anticipated that any future cash distributions made by the Company to its stockholders would be treated as cash dividends and not as a nontaxable return of capital for federal and state income tax purposes.

Dividends from the Company will depend, in large part, upon receipt of dividends from the Bank and ability of the MHC to waive the receipt of dividends paid by the Company to its shareholders. Federal and state law imposes certain limitations on dividends by savings banks and the waiver of receipt of dividends by mutual holding companies. See "Item 1.Business." and "Item 1A. Risk Factors."

Issuer Purchases

There were no shares purchased by the Company during 2012.

ITEM 6. SELECTED FINANCIAL DATA

The following tables set forth selected financial and other data of the Company for the periods and at the dates indicated. The information should be read in conjunction with the Consolidated Financial Statements and Notes

beginning on page F-2.

	At December 31,		
	2012	2011	2010
	(In Thousands, except per share data)		
Financial Condition Data:			
Total Assets	$179,046	$182,950	$195,127
Loans, net (1)	121,995	127,972	135,351
Securities available for sale	28,864	33,007	32,463
Deposits	155,075	159,948	170,831
Stockholders' Equity	21,046	20,413	21,687
Book Value per common share	$9.94	$9.64	$10.23

(1) Net of loans in process, deferred loan (costs) fees, and allowance for loan losses.

	Years Ended December 31,		
	2012	2011	2010
	(In Thousands, except per share data)		
Operations Data:			
Total interest and dividend income	$7,919	$8,567	$9,793
Total interest expense	2,170	2,570	3,432
Net interest income	5,750	5,997	6,361
Provision for loan losses	1,912	5,180	3,309
Other income	642	758	430
Other expense	3,536	3,770	4,343
Income tax expense (benefit)	270	(921)	(354)
Net income (loss)	$674	$(1,274)	$(507)
Basic earnings (loss) per share	$0.33	$(0.62)	$(0.25)
Diluted earnings (loss) per share	$0.32	$(0.62)	$(0.25)

	At or for the Years Ended December 31,		
	2012	2011	2010
Performance Ratios:			
Income (loss) return on average assets	0.37 %	(0.68) %	(0.25) %
Income (loss) return on average stockholders' equity	3.23	(5.97)	(2.26)
Average stockholders' equity to average assets	11.39	11.45	11.10
Stockholders' equity to total assets at end of period	11.75	11.16	11.11
Net interest rate spread (1)	3.36	3.43	3.31
Net interest margin (2)	3.45	3.53	3.43
Average interest-earning assets to average interest-bearing liabilities	107.01	106.61	106.54
Other expense to average assets	1.93	2.02	2.18
Efficiency ratio (3)	55.31	55.81	63.95
Dividend payout ratio	-	(0.16)	(0.81)
Regulatory Capital Ratios:			
Tangible capital (to average assets)	10.30	9.38	9.57
Tier 1 core capital (to average assets)	10.30	9.38	9.57
Total risk-based capital (to risk-weighted assets)	18.19	16.76	17.17
Asset Quality Ratios:			
Net charge-offs (recoveries) to average gross loans outstanding	2.52	3.79	1.45
Allowance for loan losses to gross loans outstanding	2.69	3.57	3.35
Non-performing loans to gross loans	5.04	6.53	3.77
Non-performing assets to total assets (4)	4.26	5.04	3.40
Other Data:			
Number of full-service offices	1	1	1

(1) The net interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.

(2) The net interest margin represents net interest income as a percent of average interest-earning assets.

(3)The efficiency ratio represents other expense as a percent of net interest income before the provision for loan losses and other income.

(4)Non-performing assets consist of non-performing loans and foreclosed real estate. Non-performing loans consist of all loans 90 days or morepast due and all loans no longer accruing interest.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

General

This discussion and analysis reflects the Company's consolidated financial statements and other relevant statistical data, and is intended to enhance your understanding of our financial condition and results of operations. The information in this section has been derived from and should be read in conjunction with the consolidated financial statements and notes to the consolidated financial statements, which appear beginning on page F-2.

Our results of operations depend primarily on our net interest income. Net interest income is the difference between the interest income we earn on our interest-earning assets, consisting primarily of loans, investment securities, mortgage-backed securities and other interest-earning assets (primarily cash and cash equivalents), and the interest we pay on our interest-bearing liabilities, consisting of money market accounts, passbook savings accounts, individual retirement accounts and certificates of deposit. Our results of operations also are affected by our provisions for loan losses, non-interest income and non-interest expense. Non-interest income currently consists primarily of fees, service charges, and gains on the sale of loans. Non-interest expense currently consists primarily of salaries and employee benefits, deposit insurance premiums, directors' fees, occupancy, data processing and professional fees. Our results of operations also may be affected significantly by general and local economic and competitive conditions, changes in market interest rates, governmental policies and actions of regulatory authorities.

Critical Accounting Policies

We consider accounting policies involving significant judgments and assumptions by management that have, or could have, a material impact on the carrying value of certain assets or on income to be critical accounting policies. We consider the allowance for loan losses and deferred income taxes to be our critical accounting policy.

Allowance for Loan Losses. The allowance for loan losses is an amount necessary to absorb known or inherent losses that are both probable and reasonably estimable and is established through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect each borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

A loan is considered impaired when, based on current information and events, it is probable that we will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Deferred Income Taxes. Deferred income tax assets and liabilities are computed for differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Deferred tax assets are also recognized for operating loss and tax credit carry-forwards. Accounting guidance requires that companies assess whether a valuation allowance should be established against their deferred tax assets based on the consideration of all available evidence using a “more likely than not” standard.

Per accounting guidance, the Company reviewed its deferred tax assets at December 31, 2012 and determined that no valuation allowance was necessary. Despite the current year net operating loss and challenging economic environment, the Company has a history of strong earnings, is well-capitalized, and has positive expectations regarding future taxable income.

The deferred tax asset will be analyzed quarterly to determine if a valuation allowance is warranted. However, there can be no guarantee that a valuation allowance will not be necessary in future periods. In making such judgments, significant weight is given to evidence that can be objectively verified. In making decisions regarding any valuation allowance, the Company considers both positive and negative evidence and analyzes changes in near-term market conditions as well as other factors which may impact future operating results.

Comparison of Financial Condition at December 31, 2012 and December 31, 2011

The Company's total assets decreased $3.9 million, or 2.1%, to $179.0 million at December 31, 2012, from $182.9 million at December 31, 2011 due primarily to a decrease in loans caused by a combination of normal attrition, pay-downs, loan charge-offs and strategic initiatives to reduce lending exposure and a decline in the investment portfolio due to pay-downs and calls. Specifically, the decrease is the result of a decrease in loans of $6.0 million, a $4.1 million decrease in securities available for sale, a decrease of $0.5 million in deferred tax assets, a decrease of $1.2 million in non-marketable equity securities, a decrease in income tax refunds receivable of $0.6 million, a decrease to prepaid FDIC insurance premiums of $0.2 million, and a decrease in premises and equipment of $0.2 million due to depreciation. The decreases were partially offset by an increase of $7.8 million in cash and cash equivalents and a $0.8 million increase in foreclosed real estate.

Cash and cash equivalents increased $7.8 million, or 266.3%, to $10.8 million at December 31, 2012 from $2.9 million at December 31, 2011 primarily as a result of cash provided by investing and operating activities exceeding cash used in financing activities.

Securities available for sale decreased $4.1 million, or 12.6%, to $28.9 million at December 31, 2012 from $33.0 million at December 31, 2011. The decrease was primarily the result of $12.1 million in sales, calls, maturities and pay-downs offset by purchases of $8.4 million.

Loans, net of the allowance for loan losses, decreased $6.0 million, or 4.7%, to $122.0 million at December 31, 2012, from $128.0 million at December 31, 2011. The decrease in loans, net of the allowance for loan losses, was primarily due to normal attrition and pay-downs and principal reductions exceeding the level of originations in 2012. The Company is focusing its lending efforts on customers based primarily in its local market. Additionally, in this low rate environment our customers have been aggressively accelerating principal payments. Loan demand for 2012 increased slightly from 2011 levels, but remains low, as difficult economic conditions continue to impact our local market.

Foreclosed real estate increased $0.8 million, or 139.3%, to $1.3 million at December 31, 2012, from $0.5 million at December 31, 2011. The increase was primarily due to the level of real estate acquired through loan foreclosures, which has increased due to the continued stress the economic environment has placed on the Company’s customers.

Deferred tax assets decreased $0.5 million, or 16.6%, to $2.2 million at December 31, 2012, from $2.7 million at December 31, 2011. The decrease was due to the reduced level of allowance for loan loss provision recorded during 2012 of $1.9 million as compared to the $5.2 million recorded during 2011, as well as the level of charge-offs which lowered the allowance balance. The decreases were slightly offset by increases in deferred tax assets related to employee benefit plans, net operating loss carry forwards and other deferred tax asset items.

Income tax refunds receivable decreased $0.6 million, or 77.4%, to $0.2 million at December 31, 2012, from $0.7 million at December 31, 2011. The decrease was primarily due to receipt of the refund of taxes as a result of the 2011 net operating loss being carried back to 2009, offset by an increase to the receivable for taxes to be refunded due to a 2012 net operating loss carry back.

Other assets comprised primarily of prepaid expenses, deferred director compensation accounts, and auto loan repossessions remained unchanged at $1.4 million at December 31, 2012 and 2011, respectively.

Total deposits decreased $4.9 million, or 3.0%, to $155.1 million at December 31, 2012, from $159.9 million at December 31, 2011. The decrease is primarily due to decreases in certificates of deposit which declined $8.9 million. Checking accounts and passbook savings increased $2.2 million and money market accounts increased $1.8 million from December 31, 2011 to December 31, 2012 due primarily to customers moving funds into non-term products as they wait for a better rate environment.

Other liabilities increased $0.2 million, or 8.4%, to $2.7 million at December 31, 2012, from $2.5 million at December 31, 2011. The increase was primarily due to increases in the accrued SERP and deferred director compensation payables totaling $0.1 million, and an accrued employee incentive payable of $0.1 million at December 31, 2012.

Equity increased $0.6 million, or 3.1%, to $21.0 million at December 31, 2012, from $20.4 million at December 31, 2011. The increase in equity is primarily related to the net income for the year ended December 31, 2012 of approximately $0.7 million.

Comparison of Results of Operations for the Years Ended December 31, 2012 and December 31, 2011

General. Net income for the year ended December 31, 2012 was $0.7 million compared to a net loss of $1.3 million for the year ended December 31, 2011.
Net Interest Income. The following table summarizes interest and dividend income and interest expense for the years ended December 31, 2012 and 2011.

	Years Ended December 31,			
	2012	2011	$ change	% change
	(Dollars in thousands)			
Interest and dividend income:				
Interest and fees on loans	$7,028	$7,503	$(475)	(6.33)%
Securities:				
Mortgage-backed and related securities	633	904	(271)	(29.98)
U.S. agency securities	38	84	(46)	(54.76)
State and municipal securities	211	70	141	201.43
Non-marketable equity securities	5	3	2	66.67
Interest-bearing deposits	4	3	1	33.33
Total interest and dividend income	7,919	8,567	(648)	(7.56)
Interest expense:				
Deposits	2,170	2,570	(400)	(15.56)
Borrowings	-	-	-	-
Total interest expense	2,170	2,570	(400)	(15.56)
Net interest income	$5,749	$5,997	$(248)	(4.14)%

Net interest income decreased $0.2 million, or 4.1%, for the year ended December 31, 2012 compared to the year ended December 31, 2011. Interest and dividend income decreased due to the yield on interest earning assets decreasing from 5.04% to 4.75% and average interest earning assets declining by $3.4 million. The decline in the loan portfolio contributed to a significant portion of the change in average interest earning assets. The yield on the investment portfolio and the loan portfolio continued to decline as the low rate environment continued during 2012. This decline in interest income was more than offset by a $0.4 million or 15.6% reduction in interest expense. The cost of funds declined 22 basis points or 15.6% in 2012 due to the low rate environment. Additionally, the average balance of interest bearing liabilities declined by $3.8 million or 2.4%.

Provision for Loan Losses. Management recorded a loss provision of $1.9 million for the year ended December 31, 2012, compared to $5.2 million for the year ended December 31, 2011. The loss provision decrease for the year ended December 31, 2012 was reflective of management's assessment of the risk in the loan portfolio as compared to the allowance for loan losses. As of December 31, 2012 there were 23 impaired loans totaling $5.6 million for 18 borrowers as compared to 73 impaired loans totaling $10.3 million for 36 borrowers evaluated in 2011. Based on a review of the loans that were in the loan portfolio at December 31, 2012, management believes that the allowance is maintained at a level that represents its best estimate of inherent losses in the loan portfolio that were both probable and reasonably estimable.

Management uses available information to establish the appropriate level of the allowance for loan losses. Future additions or reductions to the allowance may be necessary based on estimates that are susceptible to change as a result

of changes in economic conditions and other factors. As a result, our allowance for loan losses may not be sufficient to cover actual loan losses, and future provisions for loan losses could materially adversely affect the Company's operating results. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize adjustments to the allowance based on their judgments about information available to them at the time of their examination.

Other Income. The following table summarizes other income for the years ended December 31, 2012 and 2011.

	Years Ended December 31,			
	2012	2011	$ change	% change
	(Dollars in thousands)			
Other income:				
Gain (loss) on sale of securities	$14	$276	$(262)	(94.93)%
Gain on sale of loans	109	9	100	1,111.11
Gain (loss) on sale of OREO	87	16	71	443.75
Origination of mortgage servicing rights, net of amortization	(1)	(29)	28	(96.55)
Customer service fees	290	297	(7)	(2.36)
Income on bank owned life insurance	30	33	(3)	(9.09)
Other	113	155	(42)	(27.10)
Total other income	$642	$757	$(115)	(15.19)%

The decrease in other income was primarily due to the gain on sale of securities which occurred in 2011. During 2012, there were minimal security sales. These decreases were offset by increases in the gain on sale of OREO, as the properties sold with gains exceeded those with losses, and the gain on sale of loans.

Other Expenses. The following table summarizes other expenses for the years ended December 31, 2012 and 2011.

	Years Ended December 31,			
	2012	2011	$ change	% change
	(Dollars in thousands)			
Other expenses:				
Salaries and employee benefits	$1,502	$1,544	$(42)	(2.72)%
Directors fees	87	84	3	3.57
Occupancy	448	486	(38)	(7.82)
Deposit insurance premium	242	274	(32)	(11.68)
Legal and professional services	220	236	(16)	(6.78)
Data processing	320	304	16	5.26
Valuation adjustments and expenses on foreclosed real estate	152	224	(72)	(32.14)
Loss on sale of repossessed assets	19	14	5	35.71
Loss on consumer loans	41	82	(41)	(50.00)
Other	505	522	(17)	(3.26)
Total other expenses	$3,536	$3,770	$(234)	(6.21)%
Efficiency ratio (1)	55.31%	55.81%		

(1) Computed as other expenses divided by the sum of net interest income and other income.

Total other expenses declined in 2012 by $0.2 million, or 6.2% due primarily to salaries and employee benefits being lower, deposit insurance premiums being lower, costs to carry foreclosed real estate were lower, expenses on loss on consumer loans which were related to some fraudulent auto loans purchased from a third-party institution were lower, and legal fees and occupancy were slightly lower. Offsetting these lower expenses were higher data processing costs, increased losses on the sale of repossessed assets, and an increase in directors fees due to the addition of one new director in 2012. Salary and employee benefits are lower primarily due to having fewer employees and the mix of lower earning employees being higher than in prior years. The deposit insurance premiums are lower due to our balances being lower than in the prior year and the assessment rates being lower due to a change in how the FDIC

assesses the premiums.

Income Taxes. The Company recorded an income tax expense of $0.3 million for the year ended December 31, 2012, compared to an income tax benefit of $0.9 million for the same period in 2011. The effective tax rates for the years ended December 31, 2012 and 2011 were 28.61% and (41.96%), respectively.

Average Balance Sheet

The following table presents for the periods indicated the total dollar amount of interest income from average interest earning assets and the resultant yields, as well as the interest expense on average interest bearing liabilities, expressed both in dollars and rates. No tax equivalent adjustments were made. All average balances are monthly average balances. Non-accruing loans have been included in the table as loans carrying a zero yield. The amortization of loan fees is included in computing interest income; however, such fees are not material.

	Year Ended December 31,								
	2012			2011			2010		
	(Dollars in Thousands)								
	AVERAGE BALANCE	INTEREST	AVERAGE YIELD/ COST	AVERAGE BALANCE	INTEREST	AVERAGE YIELD/ COST	AVERAGE BALANCE	INTEREST	AVERAGE YIELD/ COST
ASSETS									
Interest-earning assets									
Securities, net (1)	$32,457	$882	2.72 %	$32,807	$1,058	3.22 %	$32,831	$1,221	3.72 %
Loans receivable, net (2)	125,478	7,028	5.60 %	130,283	7,503	5.76 %	141,800	8,563	6.04 %
Non-marketable equity securities	1,689	5	0.30 %	2,535	3	0.12 %	2,535	1	0.04 %
Other investments	6,977	4	0.06 %	4,394	3	0.07 %	8,429	8	0.09 %
Total interest-earning assets	166,601	$7,919	4.75 %	170,019	$8,567	5.04 %	185,595	$9,793	5.28 %
Non-interest-earning assets	16,577			16,512			16,647		
TOTAL ASSETS	$183,178			$186,531			$202,242		
LIABILITIES AND EQUITY									
Interest-bearing liabilities									
Money Market accounts	$20,369	$85	0.42 %	$20,544	$129	0.63 %	$23,775	$291	1.22 %
Passbook savings accounts	15,026	20	0.13 %	13,444	16	0.12 %	12,017	32	0.27 %
Certificates of Deposit accounts	107,805	2,055	1.91 %	114,205	2,410	2.11 %	128,244	3,079	2.40 %
Checking accounts	12,493	10	0.08 %	11,282	15	0.13 %	10,164	30	0.30 %
Total interest-bearing liabilities	155,693	2,170	1.39 %	159,475	2,570	1.61 %	174,200	3,432	1.97 %
Non-interest-bearing liabilities	6,612			5,699			5,599		
TOTAL LIABILITIES	162,305			165,174			179,799		
EQUITY	20,873			21,357			22,443		
TOTAL LIABILITIES AND EQUITY	$183,178			$186,531			$202,242		

NET INTEREST INCOME	$5,749	$5,997	$6,361
NET INTEREST RATE SPREAD (3)	3.36 %	3.43 %	3.31 %
NET INTEREST MARGIN (4)	3.45 %	3.53 %	3.43 %
RATIO OF AVERAGE INTEREST-EARNING ASSETS TO AVERAGE INTEREST-BEARING LIABILITIES	107.01 %	106.61 %	106.54 %

(1) Includes unamortized discounts and premiums.
(2) Amount is net of deferred loan origination (costs) fees, undisbursed loan funds, unamortized discounts and allowance for loan losses and includes non-performing loans. Loan fees included in interest income were $189,000, $301,000, and $240,000 for 2012, 2011, and 2010, respectively.
(3) Net interest rate spread represents the difference between the yield on average interest-earning assets and the average cost of interest-bearing liabilities.
(4) Net interest margin represents net interest income divided by average interest-earning assets.

Rate/Volume Analysis

The following table shows the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities. It distinguishes between the changes related to changes in outstanding balances and those due to the changes in interest rates. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (i) changes in volume (i.e., changes in volume multiplied by old rate) and (ii) changes in rate (i.e., changes in rate multiplied by old volume). For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately to the change due to volume and the change due to rate.

	Year Ended December 31,					
	2012 COMPARED TO 2011 INCREASE (DECREASE) DUE TO			2011 COMPARED TO 2010 INCREASE (DECREASE) DUE TO		
	VOLUME	RATE	NET	VOLUME	RATE	NET
	(Dollars in Thousands)					
Interest earned on						
Securities, net	$(10)	$(166)	$(176)	$(1)	$(162)	$(163)
Loans receivable, net	(269)	(206)	(475)	(663)	(397)	(1,060)
Non-marketable equity securities	(3)	5	2	-	2	2
Other investments	2	(1)	1	(3)	(2)	(5)
Total interest-earning assets	$(280)	$(368)	$(648)	$(667)	$(559)	$(1,226)
Interest expense on						
Money Market accounts	$(1)	$(43)	$(44)	$(20)	$(142)	$(162)
Passbook savings accounts	2	2	4	2	(18)	(16)
Certificates of Deposit accounts	(122)	(233)	(355)	(296)	(373)	(669)
Checking accounts	1	(6)	(5)	1	(16)	(15)
Total interest-bearing liabilities	(120)	(280)	(400)	(313)	(549)	(862)
Change in net interest income	$(160)	$(88)	$(248)	$(354)	$(10)	$(364)

Management of Market Risk

General. The majority of our assets and liabilities are monetary in nature. Consequently, our most significant form of market risk is interest rate risk. Our assets, consisting primarily of residential mortgage loans, have longer maturities than our liabilities, consisting primarily of deposits. As a result, a principal part of our business strategy is to manage interest rate risk and reduce the exposure of our net interest income to changes in market interest rates. Accordingly, our Board of Directors has established an Asset/Liability Management Committee which is responsible for evaluating the interest rate risk inherent in our assets and liabilities, for determining the level of risk that is appropriate given our business strategy, operating environment, capital, liquidity and performance objectives, and for managing this risk consistent with the guidelines approved by the Board of Directors. Senior management monitors the level of interest rate risk on a regular basis and the Asset/Liability Management Committee, which consists of senior management operating under a policy adopted by the Board of Directors, meets as needed to review our asset/liability policies and interest rate risk position.

We have sought to manage our interest rate risk in order to limit the exposure of our earnings and capital to changes in interest rates. In an attempt to accomplish this, we offer a variety of floating rate loans based on the prime rate and loans that adjust on one- to-five year intervals, based on various indices including the prime rate and U.S. Treasury

securities. In addition, we have attempted to lengthen the maturities of our deposit accounts by offering proportionately higher interest rates for longer terms, 3-5 year certificate accounts and by increasing our core deposits, in which the overall balances are generally less volatile to interest rate fluctuations than certificate accounts.

For additional information on our risk management strategy, see the sections entitled, "Item 1. Business – Delinquent Loans," "Item 1. Business – Nonperforming Assets," "Item 1. Business Ratios," and "Item 1. Business - Allowance for Loan Losses."

Net Portfolio Value. The net present value of an institution's cash flow from assets, liabilities and off balance sheet items (the institution's net portfolio value or "NPV") would change in the event of a range of assumed changes in market interest rates. For periods subsequent to December 31, 2011, institutions are responsible for valuing their own portfolios, or arranging to obtain the required information from a third-party provider. The model utilized by the Company's third-party provider utilizes a discounted cash flow analysis and an option-based pricing approach to measuring the interest rate sensitivity of net portfolio value. The model estimates the economic value of each type of asset, liability and off-balance sheet contract under the assumption that the United States Treasury yield curve increases by 100 to 300 basis points, or decreases by 100 basis points instantaneously. A basis point equals one-hundredth of one percent, and 100 basis points equals one percent. An increase in interest rates from 3% to 4% would mean, for example, a 100 basis point increase in the "Change in Interest Rates" column below.

The tables below set forth, as of the periods indicated, net portfolio value, the estimated changes in our net portfolio value that would result from the designated instantaneous changes in the United States Treasury yield curve.

Year Ended December 31, 2012

	Net Portfolio Value			Net Portfolio Value As A Percentage Of Present Value Assets	
Change In Interest Rates (Basis Points)	Estimated NPV	Amount Of Change	Percent Of Change	NPV Ratio	Change In Basis Points
	(Dollars In Thousands)				
+300	$12,481	$(12,341)	-43.64%	7.73%	(467)
+200	15,529	(9,293)	-29.88%	9.30%	(310)
+100	18,787	(6,035)	-15.17%	10.88%	(152)
0	22,147	-	-	12.40%	-
-100	24,822	2,675	12.00%	13.56%	116

Year Ended December 31, 2011

	Net Portfolio Value			Net Portfolio Value As A Percentage Of Present Value Assets	
Change In Interest Rates (Basis Points)	Estimated NPV	Amount Of Change	Percent Of Change	NPV Ratio	Change In Basis Points
	(Dollars In Thousands)				
+300	$12,671	$(5,870)	-31.66%	7.66%	(264)
+200	15,290	(3,251)	-17.53%	8.95%	(135)
+100	17,520	(1,021)	-5.51%	9.97%	(33)
0	18,541	-	-	10.30%	-
-100	20,594	2,053	11.07%	11.18%	88

The table above indicates that at December 31, 2012, in the event of a 100 basis point increase in interest rates, we would experience a decrease of approximately 15.2% in net portfolio value. In the event of 200 basis point increase in

interest rates, we would experience a decrease of approximately 29.9% in net portfolio value. For a 300 basis point increase in interest rates, we would experience a decrease value of approximately 43.6% in net portfolio value.

Certain shortcomings are inherent in the methodology used in the above interest rate risk measurement. Modeling changes in net portfolio value requires making certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the net portfolio value table presented assumes that the composition of our interest-sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration or re-pricing of specific assets and liabilities. Accordingly, although the net portfolio value table provides an indication of our interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on our net interest income and will differ from actual results.

Liquidity and Capital Resources

We maintain liquid assets at levels we believe are adequate to meet our liquidity needs. Our liquidity ratio averaged 5.7% for the year ended December 31, 2012 compared to 6.1% for the year ended December 31, 2011. We adjust our liquidity levels to fund deposit outflows, pay real estate taxes on mortgage loans, repay our borrowings, and to fund loan commitments. We also adjust liquidity as appropriate to meet asset and liability management objectives.

Our primary sources of liquidity are deposits, amortization and prepayment of loans and mortgage-backed securities, maturities of investment securities, other short-term investments, earnings, and funds provided from operations. While scheduled principal repayments on loans and mortgage-backed securities are a relatively predictable source of funds, deposit flows and loan prepayments are greatly influenced by market interest rates, economic conditions, and rates offered by our competition. We set the interest rates on our deposits to maintain a desired level of total deposits. In addition, we invest excess funds in short-term interest-earning assets, which provide liquidity to meet lending requirements.

Our cash flows are derived from operating activities, investing activities and financing activities as reported in our Consolidated Statements of Cash Flows included with the Consolidated Financial Statements which begin on page F-2 of this Form 10-K.

Our primary investing activities are the origination and purchase of one-to-four family, non-residential and multi-family real estate and other loans, including loans originated for sale, and the purchase of investment securities. For the years ended December 31, 2012 and 2011, our loan originations totaled $17.9 million and $13.1 million, respectively. For the years ended December 31, 2012 and 2011, we purchased loans totaling $5.8 million and $3.1 million, respectively. For the years ended December 31, 2012 and 2011, we received $8.4 million and $0.6 million, respectively, from the sale of loans, resulting in gains of $109,000 and $9,000, respectively. Cash received from the sales, calls, maturities and pay-downs on securities totaled $12.1 million and $13.4 million for the years ended December 31, 2012 and 2011 respectively. We purchased $8.4 million and $14.2 million in securities for the years ended December 31, 2012 and 2011, respectively. For a more detailed breakdown of our loan activity, see the section entitled “Item 1. Business-Loan Origination, Purchase and Sales.”

Deposit flows are generally affected by the level of interest rates, the interest rates and products offered by local competitors, and other factors. Deposits decreased $4.9 million for the year ended December 31, 2012 and decreased $10.9 million for the year ended December 31, 2011. For a more detailed breakdown of our deposit activity, see the section entitled “Item 1. Business-Deposit Activities and Other Sources of Funds.”

Liquidity management is both a daily and long-term function of business management. If we require funds beyond our ability to generate them internally, borrowing agreements exist with the Federal Home Loan Bank of Chicago (“FHLBC”) to provide advances and with Bankers Bank of Wisconsin to purchase Federal Funds. As a member of the FHLBC, we are required to own capital stock in the Federal Home Loan Bank of Chicago and are authorized to apply for advances on the security of such stock and certain of our mortgage loans and other assets (principally securities which are obligations of, or guaranteed by, the United States), provided certain standards related to credit-worthiness have been met. We had an available borrowing limit of $53.0 million and $46.9 million from the FHLBC as of December 31, 2012 and 2011, respectively. In addition, as of December 31, 2012, the Bank had $5.0 million of available credit from Bankers Bank of Wisconsin to purchase Federal Funds. There were no Federal Home Loan Bank advances and no Federal Funds purchased outstanding at December 31, 2012 and 2011.

At December 31, 2012 we had outstanding commitments to originate loans of $6.6 million, unfunded commitments under lines of credit of $8.3 million, unfunded commitments on construction loans of $56,000, and no unfunded

standby letters of credit. At December 31, 2012, certificates of deposit scheduled to mature in less than one year totaled $62.0 million. Based on prior experience, management believes that a significant portion of such deposits will remain with us, although there can be no assurance that this will be the case. In the event a significant portion of our deposits are not retained by us, we will have to utilize other funding sources, such as FHLBC advances, in order to maintain our level of assets. Alternatively, we could reduce our level of liquid assets, such as our cash and cash equivalents. In addition, the cost of such deposits may be significantly higher if market interest rates are higher at the time of renewal.

The Company is a separate legal entity from Ottawa Savings Bank and must provide for its own liquidity. In addition to its operating expenses, the Company is responsible for paying any dividends declared to its shareholders, and interest and principal on outstanding debt, if any. The Company also has repurchased shares of its common stock. The Company's primary source of income is dividends received from Ottawa Savings Bank. The amount of dividends that Ottawa Savings Bank may declare and pay to the Company in any calendar year, without the receipt of prior approval from the Federal Reserve Board, but with prior notice to the Federal Reserve Board, cannot exceed net income for that year to date plus retained net income (as defined) for the preceding two calendar years. At December 31, 2012, the Company had liquid assets of $296,000.

Off-Balance Sheet Arrangements and Contractual Obligations

For the year ended December 31, 2012, the Company did not engage in any off-balance sheet transactions reasonably likely to have a material adverse effect in its financial condition, results of operations or cash-flows.

Recent Accounting Pronouncements

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The amendments in ASU No. 2011-04 were to be applied prospectively. The guidance publishes convergence standards on fair value measurement and disclosures. The effective date for adoption was for interim and annual periods beginning after December 15, 2011 and was adopted by the Company effective January 1, 2012. The adoption of ASU No. 2011-04 expanded existing disclosure requirements but did not have a material impact on the Company’s financial position, results of operations and cash flows.

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. The objective of ASU No. 2011-05 was to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. This guidance eliminated the option of presenting components of comprehensive income as a part of the statement of changes in stockholder’s equity. They must be presented in a single continuous statement of comprehensive income or in two separate but consecutive statements. The effective date for adoption was for interim and annual periods beginning after December 15, 2011 and was adopted by the Company effective January 1, 2012. The adoption of ASU No. 2011-05 changed the presentation of other comprehensive income in the financial statements, but did not have an impact on the Company's financial position, results of operations or cash flows.

In December 2011, the FASB issued ASU No. 2011-12, Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05. The Update defers the effective date for amendments to the presentation of reclassifications of items out of accumulated other comprehensive income in ASU No. 2011-05. The Update was effective for the Company January 1, 2012, and did not have a material impact on the Company’s financial position or results of operations. All other requirements of ASU 2011-05 were not affected by ASU 2011-12, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of ASU No. 2011-12 changed the presentation of other comprehensive income in the financial statements, but did not have an impact on the Company's financial position, results of operations or cash flows.

In February, 2013, the FASB issued ASU No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. The Update improves the reporting of reclassifications out of accumulated other comprehensive income by requiring an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. generally accepted accounting principles (GAAP) to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. The effective date for adoption is for interim and annual periods beginning after December 15, 2012. The adoption of ASU No. 2013-02 is expected to change the presentation of other comprehensive income in the financial statements, but is not otherwise expected to have an impact on the Company’s financial position, results of operation or cash flows.

Impact of Inflation and Changing Prices

The consolidated financial statements and related notes of the Company have been prepared in accordance with GAAP, which generally requires the measurement of financial position and operating results in terms of historical dollars without consideration for changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of our operations. Unlike industrial companies, our assets and liabilities are primarily monetary in nature. As a result, changes in market interest rates have a greater impact on performance than the effects of inflation.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by this item is incorporated herein by reference to Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operation.”

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this Item 8 is contained on pages F-2 through F-47 of this Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision, and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our "disclosure controls and procedures" as contemplated by Exchange Act Rule 13a-15. Based upon their evaluation, and as of the end of the period covered by this report, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective, in all material respects, in timely alerting them to material information relating to the Company (and its consolidated subsidiary) required to be included in the periodic reports the Company is required to file and submit to the SEC under the Exchange Act.

(b)Internal Controls Over Financial Reporting

Management's annual report on internal control over financial reporting is incorporated herein by reference to page 45 of this Annual Report on Form 10-K.

(c) Changes to Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting identified in connection with the evaluation required by Exchange Act Rule 13a-15(d) that occurred during the fourth quarter of 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

The information required in response to this item regarding the Company's directors, executive officers, the audit committee, the audit committee financial expert, the code of ethics and business conduct and compliance with Section 16(a) of the Exchange Act will be contained in the Company's Proxy Statement for its Annual Meeting of Stockholders to be held on May 15, 2013 (the "Proxy Statement") under the captions "Proposal 1—Election of Directors," "Corporate Governance—Meetings and Committees of the Board of Directors," "Corporate Governance—Code of Ethics and Business Conduct," and "Section 16(a) Beneficial Ownership Reporting Compliance" and the information included therein is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required in response to this item will be contained in the Proxy Statement under the captions “Directors’ Compensation,” and “Executive Compensation” and the information included therein is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

(a) Securities Authorized for Issuance under Equity Compensation Plans.

	Number of Securities to be issued upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding securities reflected in column a) (c)
Equity Compensation Plans Approved by Stockholders	92,667	10.46	16,353
Equity Compensation Plans not Approved by Stockholders	-	-	-
Total	92,667	10.46	16,353

(b) Stock Ownership. The information required in response to this item will be contained in the Proxy Statement under the caption “Stock Ownership” and the information included therein is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required in response to this item will be contained in the Proxy Statement under the caption “Proposal 1— Election of Directors” and “Transactions with Related Persons” and the information included therein is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required in response to this item will be contained in the Proxy Statement under the caption “Proposal 2—Ratification of Independent Registered Public Accounting Firm” and the information included therein is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS

Exhibit No.	Description of Exhibits
3.1	Certificate of Incorporation of Ottawa Savings Bancorp, Inc. (incorporated by reference to Exhibit 3.1 to Company’s Registration Statement on Form SB-2, No. 333-123455, filed on March 18, 2005, as amended)
3.2	

	Bylaws of Ottawa Savings Bancorp, Inc. (incorporated by reference to Exhibit 3.2 to Company's Registration Statement on Form SB-2, No. 333-123455, filed on March 18, 2005, as amended)
4.1	Form of Stock Certificate of Ottawa Savings Bancorp, Inc. (incorporated by reference to Exhibit 4.1, to Company's Registration Statement on Form SB-2, No. 333-123455, filed on March 18, 2005, as amended)
10.1	Ottawa Savings Bank Employee Stock Ownership Plan and Trust Agreement, (incorporated by reference to Exhibit 10.1 to Company's Registration Statement on Form SB-2, No. 333-123455, filed on March 18, 2005, as amended)
10.2	ESOP Loan Documents, (incorporated by reference to Exhibit 10.2 to Company's Registration Statement on Form SB-2, No. 333-123455, filed on March 18, 2005, as amended)
10.4	Amended and Restated Employment Agreement by and between Ottawa Savings Bank, Ottawa Saving Bancorp, Inc. and Jon L. Kranov (incorporated by reference to Exhibit 10.4 to Company's Annual Report on Form 10-K, No.000-51367, filed on March 30, 2009)

Exhibit No.	Description of Exhibits
10.5	Amended and Restated Employment Agreement by and between Ottawa Savings Bank, Ottawa Saving Bancorp, Inc. and Philip B. Devermann (incorporated by reference to Exhibit 10.5 to Company’s Annual Report on Form 10-K, No.000-51367, filed on March 30, 2009).
10.7	Ottawa Savings Bank Employees’ Savings and Profit Sharing Plan and Trust, (incorporated by reference to Exhibit 10.7 to Company’s Registration Statement on Form SB-2, No. 333-123455, filed on March 18, 2005, as amended).
10.8	Ottawa Savings Bank Change in Control Severance Compensation Plan, (incorporated by reference to Exhibit 10.8 to Company’s Registration Statement on Form SB-2, No. 333-123455, filed on March 18, 2005, as amended)
10.9	Ottawa Savings Bank Voluntary Deferred Compensation Plan (incorporated by reference to Exhibit 10.9 to Company’s Registration Statement on Form SB-2, No. 333-123455, filed on May 16, 2005)
10.1	Amendment to Ottawa Savings Bank Voluntary Deferred Compensation Plan for Directors, (incorporated by reference to Exhibit 10.10 to Company’s Registration Statement on Form SB-2, No. 333-123455, filed on May 16, 2005, as amended)
10.12	Salary Continuation Agreement between Ottawa Savings Bank and Jon L. Kranov, as amended. (incorporated by reference to Exhibit 10.12 to Company’s Annual Report on Form 10-K, No.000-51367, filed on March 30, 2009)
10.13	Salary Continuation Agreement between Ottawa Savings Bank and Philip B. Devermann, as amended. (incorporated by reference to Exhibit 10.13 to Company’s Annual Report on Form 10-K, No.000-51367, filed on March 30, 2009)
11.1	Computation of per share earnings (included in Note 1 to the Company’s Consolidated Financial Statements)
14.1	Ottawa Savings Bancorp, Inc. Code of Ethics and Business Conduct (incorporated by reference to Exhibit 14.1 to Company’s 2006 Annual Report on Form 10-KSB, No. 000-51367, filed on March 29, 2007)
21.1	List of Subsidiaries (incorporated by reference to Exhibit 21.1 to Company’s 2005 Annual Report on Form 10-KSB, No. 000-51367, filed on March 29, 2006)
23.1	Consent of McGladrey LLP
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32.1	Section 1350 Certifications
101.0	

The following materials from the Ottawa Savings Bancorp, Inc. Annual Report on Form 10-K for the year ended December 31, 2012 formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Statements of Financial Condition, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Cash Flows and (iv) related notes.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The internal control process has been designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's consolidated financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America.

Management conducted an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2012, utilizing the framework established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the Company's internal control over financial reporting as of December 31, 2012 is effective.

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that accurately and fairly reflect, in reasonable detail, transactions and dispositions of assets; and provide reasonable assurances that: (1) transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States; (2) receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and (3) unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the Company's financial statements are prevented or timely detected.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to the rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

Ottawa Savings Bancorp, Inc. & Subsidiary

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Report of Independent Registered Public Accounting Firm

To the Board of Directors
Ottawa Savings Bancorp, Inc. and Subsidiary

We have audited the accompanying consolidated balance sheets of Ottawa Savings Bancorp, Inc. and Subsidiary (the Company) as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

/s/ McGLADREY LLP
Chicago, Illinois
March 28, 2013

Ottawa Savings Bancorp, Inc. & Subsidiary

Consolidated Balance Sheets
December 31, 2012 and 2011

		2012		2011
Assets				
Cash and due from banks	$	1,439,637	$	1,664,957
Interest bearing deposits		9,348,352		1,280,508
Total cash and cash equivalents		10,787,989		2,945,465
Federal funds sold		1,666,000		1,627,000
Securities held to maturity (fair value of $13 and $16 at December 31, 2012 and 2011, respectively)		12		15
Securities available for sale		28,863,603		33,006,945
Non-marketable equity securities		1,334,436		2,534,952
Loans, net of allowance for loan losses of $3,381,441 and $4,747,412 at December 31, 2012 and 2011, respectively		121,994,851		127,971,762
Loans held for sale		171,095		-
Premises and equipment, net		6,629,794		6,801,376
Accrued interest receivable		696,638		691,367
Foreclosed real estate		1,297,214		542,160
Deferred tax assets		2,243,663		2,690,622
Cash value of life insurance		1,587,436		1,557,106
Prepaid FDIC premiums		163,999		394,797
Income tax refunds receivable		166,590		738,658
Other assets		1,442,841		1,447,980
Total assets	$	179,046,161	$	182,950,205
Liabilities and Stockholders' Equity				
Liabilities				
Deposits:				
Non-interest bearing	$	4,313,635	$	4,038,837
Interest bearing		150,761,010		155,909,613
Total deposits		155,074,645		159,948,450
Accrued interest payable		806		1,908
Other liabilities		2,686,620		2,477,372
Total liabilities		157,762,071		162,427,730
Commitments and contingencies (Note 14)				
Redeemable common stock held by ESOP plan		237,712		109,818
Stockholders' Equity				
Common stock, $.01 par value, 12,000,000 shares authorized; 2,224,911 shares issued		22,249		22,249
Additional paid-in-capital		8,705,547		8,715,905
Retained earnings		13,689,967		13,015,777
Unallocated ESOP shares		(356,132)		(407,008)
Unearned management recognition plan shares		(33,977)		(41,119)
Accumulated other comprehensive income		468,554		428,789
		22,496,208		21,734,593

Less:				
Treasury stock, at cost; 106,932 shares		(1,212,118)		(1,212,118)
Maximum cash obligation related to ESOP shares		(237,712)		(109,818)
Total stockholders' equity		21,046,378		20,412,657
Total liabilities and stockholders' equity	$	179,046,161	$	182,950,205

See Accompanying Notes to Consolidated Financial Statements.

Ottawa Savings Bancorp, Inc. & Subsidiary

Consolidated Statements of Operations
Years Ended December 31, 2012 and 2011

	2012	2011
Interest and dividend income:		
Interest and fees on loans	$7,028,299	$7,503,210
Securities:		
Residential mortgage-backed and related securities	633,118	903,674
U.S. agency securities	38,297	84,166
State and municipal securities	210,311	69,472
Dividends on non-marketable equity securities	5,418	2,914
Interest-bearing deposits	3,792	3,495
Total interest and dividend income	7,919,235	8,566,931
Interest expense:		
Deposits	2,169,642	2,569,586
Borrowings	1	272
Total interest expense	2,169,643	2,569,858
Net interest income	5,749,592	5,997,073
Provision for loan losses	1,912,000	5,180,040
Net interest income after provision for loan losses	3,837,592	817,033
Other income:		
Gain on sale of securities	13,948	276,474
Gain on sale of loans	109,059	9,345
Gain on sale of OREO	86,984	15,802
Origination of mortgage servicing rights, net of amortization	(1,307)	(29,184)
Customer service fees	289,815	297,055
Income on bank owned life insurance	30,330	33,416
Other	113,532	154,614
Total other income	642,361	757,522
Other expenses:		
Salaries and employee benefits	1,501,839	1,543,652
Directors fees	87,150	84,000
Occupancy	447,804	485,945
Deposit insurance premium	241,514	274,362
Legal and professional services	219,985	236,274
Data processing	320,034	303,619
Valuation adjustments and expenses on foreclosed real estate	152,088	223,932
Loss on sale of repossessed assets	18,908	13,736
Loss on consumer loans	41,514	81,895
Other	504,725	522,302
Total other expenses	3,535,561	3,769,717
Income (loss) before income tax expense (benefit)	944,392	(2,195,162)
Income tax expense (benefit)	270,202	(921,204)
Net income (loss)	$674,190	$(1,273,958)
Basic earnings (loss) per share	$0.33	$(0.62)

Diluted earnings (loss) per share	$0.32	$(0.62)

See Accompanying Notes to Consolidated Financial Statements.

Ottawa Savings Bancorp, Inc. & Subsidiary

Consolidated Statements of Comprehensive Income (Loss)
Years Ended December 31, 2012 and 2011

	2012	2011
Net income (loss)	$674,190	$(1,273,958)
Other comprehensive income (loss), before tax:		
Securities available for sale:		
Unrealized holding gains arising during the period	74,198	114,235
Reclassification adjustment for (gains) included in net income	(13,948)	(276,474)
Other comprehensive income (loss), before tax	60,250	(162,239)
Income tax expense (benefit) related to items of other comprehensive income (loss)	20,485	(55,161)
Other comprehensive income (loss), net of tax	39,765	(107,078)
Comprehensive income (loss)	$713,955	$(1,381,036)

See Accompanying Notes to Consolidated Financial Statements.

Ottawa Savings Bancorp, Inc. & Subsidiary
Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2012 and 2011

	Common Stock	Additional Paid-in Capital	Retained Earnings	Unallocated ESOP Shares	Unearned MRP Shares	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Maximum Cash Obligation Related to ESOP Shares	To
Balance, December 31, 2010	$22,249	$8,734,122	$14,374,230	$(457,884)	$(168,639)	$535,867	$(1,205,051)	$(148,292)	$21,68
Net loss	-	-	(1,273,958)	-	-	-	-	-	(1,27
Other comprehensive loss	-	-	-	-	-	(107,078)	-	-	(107,
Allocation of 5,087 of ESOP shares	-	(21,694)	-	50,876	-	-	-	-	29,18
Reclassification adjustment for 5,235 MRP shares purchased at13.46 per share, granted at $4.25 per share	-	(48,214)	-	-	48,214	-	-	-	-
Compensation expense on MRP awards granted	-	-	-	-	79,306	-	-	-	79,30
Compensation expense on RRP options granted	-	51,691	-	-	-	-	-	-	51,69
Cash dividends paid, $0.10 per share	-	-	(84,495)	-	-	-	-	-	(84,4
Purchase of 1,694 treasury shares	-	-	-	-	-	-	(7,067)	-	(7,06
Change related to ESOP shares cash obligation	-	-	-	-	-	-	-	38,474	38,47
Balance, December 31, 2011	22,249	8,715,905	13,015,777	(407,008)	(41,119)	428,789	(1,212,118)	(109,818)	20,41

Net income	-	-	674,190	-	-	-	-	-	674,1
Other comprehensive income	-	-	-	-	-	39,765	-	-	39,76
Allocation of 5,088 of ESOP shares	-	(21,291)	-	50,876	-	-	-	-	29,58
Compensation expense on MRP awards granted	-	-	-	-	7,142	-	-	-	7,142
Compensation expense on RRP options granted	-	10,933	-	-	-	-	-	-	10,93
Change related to ESOP shares cash obligation	-	-	-	-	-	-	-	(127,894)	(127,
Balance, December 31, 2012	$22,249	$8,705,547	$13,689,967	$(356,132)	$(33,977)	$468,554	$(1,212,118)	$(237,712)	$21,04

See Accompanying Notes to Consolidated Financial Statements.

Ottawa Savings Bancorp, Inc. & Subsidiary
Consolidated Statements of Cash Flows
Years Ended December 31, 2012 and 2011

	2012	2011
Cash Flows from Operating Activities		
Net income (loss)	$674,190	$(1,273,958)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	200,766	243,404
Provision for loan losses	1,912,000	5,180,040
Provision for deferred income taxes	426,474	(236,936)
Net amortization of premiums and discounts on securities	494,413	380,286
Gain on sale of securities	(13,948)	(276,474)
Origination of mortgage loans held for sale	(8,504,304)	(598,230)
Proceeds from sale of mortgage loans held for sale	8,442,268	607,575
Gain on sale of loans, net	(109,059)	(9,345)
Origination of mortgage servicing rights, net of amortization	1,307	29,184
Gain on sale of foreclosed real estate	(86,984)	(15,802)
Write down of foreclosed real estate	36,798	52,513
Loss on sale of repossessed assets	18,908	13,736
Loss on consumer loans	41,514	81,895
ESOP compensation expense	29,585	29,182
MRP compensation expense	7,142	79,306
Compensation expense on RRP options granted	10,933	51,691
Increase in cash surrender value of life insurance	(30,330)	(33,416)
Change in assets and liabilities:		
Decrease in prepaid FDIC insurance premiums	230,798	261,849
(Increase) decrease in accrued interest receivable	(5,271)	60,402
Increase in other assets	(27,450)	(190,404)
Decrease (increase) in income tax refunds receivable	572,068	(339,581)
Increase (decrease) in accrued interest payable and other liabilities	208,146	(64,693)
Net cash provided by operating activities	4,529,964	4,032,224
Cash Flows from Investing Activities		
Securities available for sale:		
Purchases	(8,369,727)	(14,187,107)
Sales, maturities and paydowns	12,092,854	13,376,814
Securities held to maturity:		
Paydowns	3	2
Net decrease in loans	1,957,242	1,669,673
Net (increase) decrease in federal funds sold	(39,000)	3,389,000
Proceeds from sale of foreclosed real estate	1,326,687	1,216,274
Proceeds from sale of repossessed assets	46,974	44,316
Purchase of premises and equipment	(29,184)	-
Sale of non-marketable equity securities	1,200,516	-
Net cash provided by investing activities	8,186,365	5,508,972
Cash Flows from Financing Activities		
Net decrease in deposits	(4,873,805)	(10,883,004)
Cash dividends paid	-	(84,495)

Purchase of treasury stock	-	(7,067)
Net cash used in financing activities	(4,873,805)	(10,974,566)
Net increase (decrease) in cash and cash equivalents	7,842,524	(1,433,370)
Cash and cash equivalents:		
Beginning	2,945,465	4,378,835
Ending	$10,787,989	$2,945,465

(Continued)

Ottawa Savings Bancorp, Inc. & Subsidiary

Consolidated Statements of Cash Flows (continued)
Years Ended December 31, 2012 and 2011

	2012	2011
Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest paid to depositors	$2,170,744	$2,619,428
Interest paid on borrowings	1	272
Income taxes paid, net of (refunds) received	(794,787)	(245,213)
Supplemental Schedule of Noncash Investing and Financing Activities		
Real estate acquired through or in lieu of foreclosure	2,429,291	1,955,063
Other assets acquired in settlement of loans	34,600	69,656
Sale of foreclosed real estate through loan origination	397,736	1,577,185
Deferred gains on the sale of OREO properties	-	83,501
Increase (decrease) in ESOP put option liability	127,894	(38,474)

See Accompanying Notes to Consolidated Financial Statements.

Ottawa Savings Bancorp, Inc. & Subsidiary
Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

Principles of consolidation

The accompanying consolidated financial statements include the accounts of Ottawa Savings Bancorp, Inc. (the Company) and its wholly owned subsidiary Ottawa Savings Bank (the Bank). All significant intercompany transactions and balances are eliminated in consolidation.

Entity structure

In 2005, the Board of Directors of the Bank unanimously adopted a plan of conversion providing for the conversion of the Bank from an Illinois chartered mutual savings bank to a federally chartered stock savings bank and the purchase of all of the common stock of the Bank by the Company. The depositors of the Bank approved the plan at a meeting held in 2005.

In adopting the plan, the Board of Directors of the Bank determined that the conversion was advisable and in the best interests of its depositors and the Bank. The conversion was completed in 2005 when the Company issued 1,223,701 shares of common stock to Ottawa Savings Bancorp MHC (a mutual holding company), and 1,001,210 shares of common stock to the public. As of December 31, 2012, Ottawa Savings Bancorp MHC holds 1,223,701 shares of common stock, representing 57.8% of the Company’s common shares outstanding.